Entrepreneurial Leadership: Fundamentals



by Bill Corbin

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LEGAL DISCLAIMER

An entrepreneur is a risk taker. The purpose of this book is to help the reader toward a positive outcome. However, there are no words or ideas in this book powerful enough to guarantee success. Therefore, Bill Corbin accepts no personal liability should your business results be unsatisfactory (nor will he claim any credit for your success).

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INTRODUCTION

This book is intended for early-phase entrepreneurs or those studying intently to prepare for entrepreneurial life. This is book 3 of *The Entrepreneurial Five Set*. Book 1 deals with the question *Are You Cut Out to Be an Entrepreneur?* If you have not successfully grappled with that issue, book 1 may be the place to start.

Book 2 is titled *How I Started My Own Business and Lost My Shirt.* It deals extensively with how to (and obviously how **not to**) get your business off to a sound start. If you are in the pre-start-up phases of developing your idea, business plan, and financial resources, *Lost My Shirt* will be helpful. (Its goal is to help you keep your shirt by avoiding the pitfalls that took mine in my first serious entrepreneurial effort.)

This book is intended to cover fundamentals of sound operation. The phrase **entrepreneurial leadership** covers the entire process of establishing your idea in the marketplace and building it toward real success. Occasionally, *leadership* may be something like the visual of Teddy Roosevelt boldly leading his army up San Juan Hill. More often, leadership involves analyzing what your business needs, making solid action decisions, gathering necessary resources, and effectively focusing those resources on the challenges at hand.

Several topics make the assumption that your business will involve hiring, training and motivating employees. If your concept does not involve employees, I'll

work hard to make the rest of the book worth the price of admission.

As with all Corbin entrepreneurial books, there is candor throughout. Some of the topics we discuss have been learned well by your author and are guiding principles of my business operations. Some still elude me but are worthy objectives. Some of the lessons were learned hard. So we'll present some informative war stories.

The book is based partly on personal experience but also on a lifetime of observing the entrepreneurial process. Therefore, it is not industry specific. It aims at a set of sound thought processes and leadership fundamentals, and must necessarily leave it to you to add the fine points related to your industry. Many of our topics should inspire you to dig deeper. For example, the subjects of marketing and negotiating provide rich opportunity for further study and growth.

Credentials:

This quick resume is not intended to puff accomplishment. Many entrepreneurs have accomplished far more. But you'll be hard-pressed to disagree that Bill Corbin and family have paid their entrepreneurial dues and can speak from experience.

1968: Graduated with MBA, Harvard Business School (which, interestingly, *didn't* teach me a large percentage of the key material in this book).

1968–1971: Big company guy—GM and RCA.

1972–1973: Founder of Concepts 4, Inc., a grand idea that failed grandly, wiped out the family savings,

moved the Corbin family to an apartment, and inspired creative negotiating one memorable afternoon when the bank called to repo *both* our cars.

1974: Founded Trailblazer Service Company on $100 of invested capital. Began selling and installing home door appliances (most notably deadbolt locks and peepholes). Dreamed up the concept of Unified Neighbors.

1975: Founded Unified Neighbors, Inc., a consumer information service aimed at informing clients about reliable home service providers (including Trailblazer Service Company, of course!).

1977: Purchased printing equipment to self-produce the mini-magazine being mailed to Unified Neighbors subscribers.

1977: Launched At-Your-Home Auto Service, changing oil and doing minor repairs in peoples' garages—lasted about two months.

1978: Launched The Family Photographer, a studio within our offices—lasted about six months.

1978: Launched a firewood chopping, selling and delivery service. Lasted one season.

1979: Launched *Carmel Happenings,* a localized *"People Magazine"* concept for our local community. Folded the tent after three issues.

1979: Launched Unified Neighbors of America to franchise consumer information concept. Closed after a couple grueling years.

1980: Launched UN Printing Company as a free-standing business. (Finally a winner!)

1981: Acquired a small printing company on Indianapolis' eastside. Changed its name to The Printing Place, dreaming of national franchise again. Closed in early 1983.

1984: Launched Carmel Publishing and its main product *The Highflyer*—a monthly, direct-mailed community magazine. This business was operated by my wife Janet until sold in 1996 to Thomson Newspapers of Toronto, Canada. Thomson paid us extremely well for *The Highflyer*.

1984: Experienced the need to be a turnaround artist when problems in the UN Printing operation nearly sank the ship (book 4 of the Five Set).

1986: Launched UN Mailing as a free-standing business.

1988: Purchased Townsend's Printing, a failed $500,000 operation, using a creative financing package through the bank that had repo'd Townsend's.

1988: Spun the original Unified Neighbors magazine into a separate operation that was sold favorably. Recast the printing and mailing operations into UN Communications, Inc.

1988: Co-Founded Bereavement Publishing, sold interest in 1992 and still operating successfully with HQ in Colorado.

1993: Launched Beckett-Highland Publishing, led by daughter Kimberly. Attained national marketing for three Bill Corbin books and aided successful self-publishing for several other authors.

1994: Formally added Fulfillment as a division within UN. Fulfillment is the process of storing finished goods for clients and shipping those goods on demand. Our largest client was Macmillan Publishing for whom we boxed and shipped promotional materials.

1995: Daughter Lisa and her husband Jason launched ProSound Entertainment, a successful event entertainment business.

1996: Closed Beckett-Highland, consolidated Townsend's Printing into our main printing plant (now 30,000 sq. ft.), closed the fulfillment operation, and generally scrambled to turnaround the business for a second time. This experience is also detailed in book 4.

1996: Sold, very favorably, *The Highflyer* magazine business to Thomson Newspapers of Montreal.

1997: Launched UN WebDesign, led by son Brandon, and become active users of the Internet. Brandon goes on to launch several dot com enterprises.

1999: Launched CorbinGroup.com. to concentrate on entrepreneurial assistance.

The whole adventure has yielded a pretty decent lifestyle, a solidly successful core business now doing about $3.5 million annually, and a heckuva lot of

entrepreneurial experience. The *Highflyer* operation was run by my wife Janet as a classic female-operated business. The ProSound enterprise is far-removed from the core communication businesses, as were the attempts at auto service, firewood sales and studio photography. Hopefully you'll agree that Corbin experience, coupled with close observation of hundreds of other entrepreneurial efforts, provides a great deal of diversity and depth for this book.

The entrepreneurial life has been "quite a trip." May yours be as good or better!

Chapter 1

Use of Your Time

What is your most precious resource? A room full of entrepreneurs would debate this question fiercely. Some would say, “Money, of course.” Sure, they’re right in the same way that air to breathe is the most important attribute of a great family vacation. If we don’t have enough money and don’t use it wisely, we’re kaput. Some would argue “your employees,” some would say “your customers.” All these positions are defensible. But as a 100% practical matter, the most precious resource of early-stage entrepreneurs is time.

Here’s a simple way of looking at a complex issue. The E (which is what I’m going to call us entrepreneurs from now on—in the interest of saving ink, trees and potential carpal tunnel treatments) must balance time among these demands:

- Planning the business and where it’s headed, sometimes involving “relationship selling” to bankers, investors, vendors and other interested parties;
- Being sure the sales/marketing effort is happening
- Running the day-to-day operation;
- Trouble-shooting and problem solving;
- Being sure to have some kind of life outside the business.

There is a lot to do, and here's an unsettling revelation to those who were perfectionists before they became Es. There just plain isn't enough time to do everything you'd like to do (unless your rich uncle or deep-pocketed venture capitalist is willing to fund a sizable staff). Therefore, it is absolutely crucial to invest time based on carefully set priorities.

We've Gotta Get Organized!

More on priorities in a minute, but first a challenge: You can skip to the next paragraph **if** you are a highly organized person who maintains a highly organized calendar, constantly updates a comprehensive "to do" list, and utilizes highly organized files that make it easy to find all important information. But stay with me here if your desk frequently looks like Hurricane Nellie blew through and you occasionally find yourself rummaging again through multiple stacks to find that envelope you wrote an important note on.

The very first time-management goal should be improved **personal** efficiency and time management. When time is precious, it is a tragedy to waste several minutes daily, that become several hours monthly, because of disorganization. As your business grows, the downside becomes bigger: potential missed appointments or deadlines, missing data necessary to do important proposals, etc. Take the time to secure and learn to use a powerful organization and time-management tool. Options include hard copy systems such as the Franklin Planner or electronic systems such as Microsoft Outlook and "Palm" products. Similarly, develop a system of organizing and

storing key notes and papers. Make it a singular goal to **know** where key information is.

Prioritize Even If Painful

OK, now that we're committed to time-efficiency, let's look again at priorities. If your business is still in start-up phase, you're in a classic race against time. Your overriding strategic goal is to reach "critical mass." Critical mass is a somewhat mysterious concept that you don't quite understand until you reach it. It is the point in a business's growth when it has enough market presence and business momentum that it seems to gain a life of its own. In the early days, you might wonder where the next customer will come from. After you reach critical mass, they just come. You must continue marketing, serving customers well and executing the fundamentals, but the momentum of critical mass, once achieved, can normally be maintained by careful business execution.

Getting to critical mass is something else again. It can feel like carving granite. The marketplace hasn't accepted you. The competitors are tougher than you expected. The ad campaign you were sure would work is falling flat. So you're in a literal race against time as you strive to get the business to critical mass before you run out of money (or your spouse runs out of patience).

In most cases, the most important priority is sales or marketing, primarily because critical mass is achieved based on market-acceptance. Correct prioritizing is a company-specific issue, but there are some general errors to avoid:

Former "big company" people tend to over-concentrate on infrastructure in the early going. I've seen start-ups that had zero sales volume but highly developed procedure manuals and cost control systems. Infrastructure is important. But the issue in this chapter is priority. Especially if the E used personal time to develop the structure, the time could likely have been better spent in business building. A related error is the expenditure of many hours and dollars in "the perfect logo" or an impressive cover for the impressive procedure manual. We must avoid "majoring in minor things" especially during start-up.

Another "big company" tendency is heavy use of high-priced professionals in start-up. This may include lawyers, accountants, computer gurus, communications consultants, or other consultants. Good professional help is crucial, and the right help can help you attain critical mass. But in looking at priorities, consider the tragedy of a start-up that has invested so heavily in infrastructure consultants that it can't afford to test (and perhaps retest a few times), then launch its marketing programs. Early-stage consultants also tend to absorb a great deal of E time.

A related error is visualizing a three or four tier growth process but pre-investing to support all four tiers. As a simple example, let's say our restaurant concept will be introduced in small towns, then medium towns, then major cities. Once we've realized full rollout, our computer system will be a masterpiece of data collection and management feedback. One choice is development of the entire software package. But an E carefully using resources might be wiser to use a much smaller platform for start-up.

Time and resources can then be devoted to the marketplace. When we get to phases 2, 3 and 4, we'll have relevant experience and can better afford the full-blown package.

There is a tendency to "over-refine" the product. There is virtually no product concept that can't stand some improvement. Often the E says, "I'll keep tweaking this thing until I get it just right." The clock ticks. Revenues don't come in. Competitors may be moving forward. Finding the right point to go to market is crucial, which leads us to an extremely useful concept, admittedly not an original Bill Corbin idea.

Ready, FIRE, Aim

Tom Peters in his must-read Excellence series introduced Ready, FIRE, Aim. Simply stated, this idea says, "get ready enough to get in the game. Start playing, learning and fine-tuning. The advantages are two. First, you are in the game. The sales and marketing wheels can begin turning. Revenue can start. The first step toward critical mass is begun. Second, there is often no better way to finalize product development than by direct feedback from the marketplace. Some of the things you thought were important won't be. Some things you never thought of may be suggested by customers you won or prospects you didn't win. A great many E-projects *never* happen because of the human nature to "be sure we've got it right" before moving forward.

Time and Your Comfort Zone

We Es are human, meaning we like to do what we like to do, and tend to avoid doing those things we don't

like to do. If your background is product development, that's likely a favorite area. If you're a number cruncher, you'll like that part of the entrepreneurial life. Marketers like to market, etc.

Here's another annoying truth. The highest priority of your entrepreneurial endeavor is often outside your personal comfort zone. A common example is sales and marketing. There are Es who break into a cold sweat at the thought of "selling." But sales and marketing may be crucial. On the other hand, if you're a fabulous peddler but have never balanced your personal checkbook, you're going to need to spend some time outside your comfort zone while you plan the administrative side of the business. Moving outside the comfort zone requires both good priority setting *and* firm personal discipline. The discipline is often the tougher issue. We know in our hearts what we need to do, but tend to resist the uncomfortable.

Even reaching critical mass does not eliminate the need to operate effectively outside your comfort zone. We could cite 100 E-examples. Here are just a couple:

- You are a bit of a non-confrontational, gentle-at-heart person. Your business now has multiple employees. Unfortunately it isn't big enough yet for a full-time group of hard-nosed supervisors or for an HR manager. One of the employees is behaving *very* badly and must be severely reprimanded if not fired. Even if reluctantly, the E must step up and firmly address the situation.
- Out of the blue a huge potential client calls to learn about your business. She wants a personal visit,

including detailed background on your company and a proposal of what you can do for her. Your “sales team” at that point is your great uncle who is a heckuva guy who used to sell auto parts until he retired. Guess who steps up?

As you grow, you will add employees—hence time and talent—to help handle the issues that fall outside your personal comfort zone. Until then you must stretch the zone.

After You Reach Critical Mass, INVEST Time

Congratulations if you’ve reached that magical point. The business is actually working. There is a steady revenue stream. Hopefully the revenue stream is higher than the ongoing payment stream. Time management remains crucial, but the issues change. An important concept is whether you are **spending** time or **investing** time. Es tend to be busy people, and much of the *busy* is driven by “the tyranny of the urgent”: talking to the next customer, getting out the next order, invoicing, handling cash receipts, etc. Time must be spent “doing business,” but for the most part that time is **spent** vs. **invested.** Invested time yields future benefits. When you develop a new, effective marketing plan, you are investing time. When you hire and train a new, effective employee, you are investing time. When you develop an effective internal procedure that overcomes a recurring problem, you are investing time.

Notice the recurring use of the word *effective* when describing your investment of time. Es can think time is being invested, but generate the equivalent of an equity stake in the Brooklyn Bridge. Some examples are obvious.

If we take a chance on a marginal job applicant, spend considerable time training, and wind up with a poor employee, we have obviously not invested well. If our new quality control procedure is poorly conceived or executed, we've wasted time. If by chance our new idea is so weak that additional problems result, we may have **disinvested.**

For some Es (Bill Corbin included) there is a tendency to be a brainstorm machine. My spot is the morning shower where, almost daily, great new ideas pop into my head. Some of them are good. Some are so-so. Some are out-and-out bad. In my early entrepreneurial career—when life had not yet taught me that I have the capacity to be an idiot—I tended to execute brainstorms at a furious clip. Careful reading of my resume shows a 3-issue foray into a new magazine during the very early stages of my core business's growth. That was, being blunt, idiotic. We diverted precious resources (time and money) from the core business. We risked the core while failing to reach critical mass with the new venture. It was a stupid thing to do, but *very* entrepreneurial. Today, I utilize a "several deep breaths" rule regarding new ideas. In part that means intense personal scrutiny and staff scrutiny over several days or weeks. My staff is empowered to say, "Uh, Bill, how 'bout putting that one on ice for awhile?"

It is vital to understand that diversion of resources from the core business is a very serious strategic issue and should be done only with great care. The strategy implications are discussed in a later chapter. For now, remember that your time is one of the precious resources that should be diverted only with great deliberation. Some early-stage entrepreneurs, flush with a bit of success, enter

new co-ventures, join boards of directors, teach classes, etc. Be careful of diversion.

Invest Every Day

It is doable—and a good thing—to have at least one item on every day's to-do list that relates to investment in the future. It is also doable to vow that no week shall pass without some identifiable long-term improvement being made in the business. Here are examples: Generate a quality control procedure that helps eliminate a recurring error. Generate a lead follow-up system that gets a brochure to new prospects by tomorrow morning. Establish or make a specific improvement in your website. (Chapters 8 and 9—"Building Infrastructure" and "The Power of Policy and Procedure"—provide multiple improvements that involve time investment.) As you add and empower employees, you can develop the same concept. By yourself, a weekly long-term improvement results in 50 investments. If you have an empowered staff of six, the total becomes 350. If *they* have empowered employees, the numbers skyrocket.

One Final Thought: Be Sure to Have a Life!

A combination of motivation, fear and latent workaholism can cause an E to prioritize the venture above outside interests and relationships. It is definitely an occupational hazard and should be carefully monitored. For most Es, success isn't sweet enough to justify sacrifice of relationships and quality of life.

Each of our chapters end with a series of questions "To Ponder and Discuss." Hopefully these questions will be challenging. Some may suggest areas of your business that require analysis, decisions and action.

To Ponder and Discuss

1. List examples of spending time. List examples of investing time.

2. In the early stages, given a choice between building business and building procedures, what would you do? Why?

3. List actual examples of the concept "ready, fire, aim" (either examples you've observed or application of the concept you may utilize).

4. List important parts of your job that are outside your personal comfort zone? What will you do to assure attention to these issues?

5. What kind of diversions might you be tempted by? Does it make sense that diversion of resources threatens your core business?

6. Have you found a way to prioritize your personal life into your entrepreneurial life?

Chapter 2

Marketing! The Key Is Marketing!

OK, let's boldly tackle a pretty tough subject. Marketing allows us to find, reach and sell customers. Marketing is the lifeblood of most businesses, yet its importance is often badly underestimated, especially by early-stage entrepreneurs. We Es, until experience has taught us better, tend to get excited about "the idea," believing that a good idea is the primary key to business success. We cling to the hope that two well-worn sayings will apply to our business concept:

- "Build it and they will come."
- "Build a better mousetrap, and the world will beat a path to your door."

Ah…if only it were true. Now and then, there's a concept that attracts a crowd merely by being built. Several years ago, a restaurant chain called Victoria Station showed up on high-traffic streets in major cities with a couple of boxcars and a caboose. Their concept was both intriguing and visible; and, sure enough, big crowds showed up on opening day. (Unfortunately they apparently didn't stay, as Victoria Station is no longer with us, but that's another chapter.) So, if you have high intrigue and high visibility, you might build a client base by folks just showing up. Most early entrepreneurial efforts don't enjoy that luxury.

The garages and workshops of America are littered with "better mousetraps." Only rarely can you spot a path

beaten to the door. Some of the "mousetraps" are brand new inventions; others are creative wrinkles on existing products. There are innovative services, new software packages, new Internet concepts, and a host of other *better mousetraps* that never achieve market acceptance despite offering substantial benefits. Conversely there are arguably absurd ideas (no offense meant, but pet rocks come to mind) that generate fortunes. When the winners and losers are counted, it is far more likely that **marketing** vs. **idea** explains the difference.

In this chapter, we'll cover some of the key issues related to effective marketing, but you are sincerely encouraged to study more and dig deeper. Es who become real students of marketing enjoy a greatly increased chance for serious success. (Side note: the concepts in this chapter are also helpful as you build a business plan, whether for internal use or to present to potential investors.)

To simplify things a bit, we'll include several disciplines within our definition of Marketing: **Market Research; Advertising; Distribution** and **Selling**. We will divide the process into four elements:

1. **Testing and measuring the strength of our idea—**Do customers find it appealing? Will they buy it? Will they pay enough to cover our costs and a fair profit?
2. **Measuring the potential size of the market—**How many buyers? How much revenue per buyer including potential repeat business?
3. **Finding a way to communicate our idea to potential buyers—**The advertising media and the message that tell our story.

4. **Developing a selling system** that inspires a favorable "buy decision" and delivers product to customers.

Steps 1 and 2 fall under **market research,** so a start-up entrepreneur must work through all four steps. The established E will spend more time at steps 3 and 4 but will return to steps 1 and 2 when considering new products or whole new business concepts.

1. Basic Product Appeal

One of business's old sayings runs, "Nothing works if the dogs don't like the dog food." A business idea must be appealing to consumers at the most basic level. It looks good, feels good, tastes good, adds joy, improves efficiency, adds convenience, solves problems, etc. If the dogs sniff and walk away, forget it. But even at this very basic level, we must dig a bit deeper. We must ask prospective buyers two questions:

- Do you find this idea/concept appealing?
- Would you be interested in actually buying it?

For reasons often overlooked, these are definitely two distinct questions. Granted, there are some ideas that are just plain bad, for example a clothing line that is pitifully ugly, or a software package that is totally user-unfriendly. But for most entrepreneurial concepts that fail the **appeal test,** it's more likely that the basic idea is fine, but not *fine enough* to inspire customers to buy it. Here are some specific pitfalls:

Inventors and highly creative entrepreneurs are particularly prone to develop “clever but likely never bought” concepts. The reason is focus. An inventor/creator typically starts with a perceived need, envisions a solution, and happily goes to work, focusing primarily on finding technical answers that overcome obstacles. When the creative type emerges triumphant from the laboratory, the emotion is, “I’VE DONE IT! I have worked 20 hours a day to bring this idea to life, and it works! Surely the marketplace will reward my brilliance.” But our creative genius has devoted 95% of his effort to the idea and 5% to the question of whether the marketplace really cares…and often, unfortunately, it doesn’t.

Entrenched competition represents another trap. A business that squares off against seriously entrenched competition probably has an OK idea (otherwise there wouldn’t be so much entrenched competition). But an entirely different question is, “Do I offer something that will inspire customers to leave a competitor and come to me?” Just showing up to play definitely does not assure a win in the E-game.

Some businesses stumble at a common sense level. Let’s envision a beautiful, upscale restaurant or country club located 55 miles from the nearest concentration of potential clients. The concept may be fabulous, but success requires a positive answer to this question: “Do we offer enough value, considering competitive alternatives, to allow us to build a loyal clientele that will travel 110 miles for each visit?” The answer may be yes, but it’s a question that must be carefully asked and answered.

Another common sense stumble can involve convenience. If our great new idea is hard to buy, hard to install or assemble, hard to learn to use, or involves major administrative hassle or other annoyance, the negatives of inconvenience can overpower the positives of our benefits.

Perhaps the most frequent stumbling block is price. If our great idea costs twice as much as consumers would consider paying, we have a bad great idea. If our life cycle is half as much as it should be or our ongoing maintenance is twice what it should be, we may have a good product concept that represents a bad business idea in terms of value.

"Lurking negatives" are another overlooked stumbling block. An eager entrepreneur can focus so hard on the idea that serious drawbacks are not considered (the entrepreneurial equivalent of a drug's major side effects). We could probably list a hundred of examples:

- Motion based security systems triggered by any passing dog or cat
- Battery-powered autos with pitiful mileage range
- Low-cost clothing that shrinks to one-half size after one washing
- Software packages that totally paralyze less-than-ideal computer systems
- Voicemail systems that can lead callers into blind alleys never to be heard from again
- Ideas that infringe on trademarks or copyrights
- Ideas that violate laws of which the E is unaware

It is a crucial E-duty to carefully avoid these hidden problems.

Lack of resources and/or lack of realistic access to the market can be a strategic stumbling block. We chuckle at the garage inventor who develops a lunar landing device; but many Es make a related mistake: envisioning a concept that cannot be realistically brought to market without **mega**-resources where *mega* is defined as far more money, personnel and expertise than the E can realistically put together. The movie *Tucker* told a classic story of an entrepreneur who dared challenge the might of Detroit's automakers. His battle was inspiring, but losing.

A similar **access to the market** dilemma concerns distribution. Some "good ideas" have no realistic chance to secure physical distribution, shelf space, and marketing attention. This possibility (discussed in more detail later in the chapter) causes some Es to consider strategic alternatives such as licensing or outright sale of ideas. The goal is 5% (or whatever) of a serious assault on the marketplace rather than 100% of a puny attack.

Let's shift to case study thinking by looking at a real, although unusual, E effort. A company called John Galt Enterprises has developed an automatic toilet seat device (trade name "The Gentleman") that politely lowers the seat after a pre-determined time interval. I assume that Mr. Galt is the inventor and that his motivation was "you left the seat up again!" complaints from female household members. The product has an Internet presence, has achieved some market momentum, and has received considerable publicity, no doubt including the stand-up comedy routines you might expect. In a market research sense, it beautifully illustrates our two "appeal" questions:

- **Is the idea basically sound?** Here the answer is almost certainly a strong YES. Men and women have battled over raised toilet seats since someone thought to add hinges. Our inventor has found a way to replace angst with tranquility in homes worldwide.
- **Will enough customers buy the idea to make it commercially successful?** Here the answer is less clear. Each unit costs $39.95. Will a 3-john home invest $120 plus S&H for toilet-seat tranquility? Further, there is definitely *some assembly required*. An arm somehow linked to the floating ball in the toilet tank launches the seat's downward journey. Do customers care enough to deal with the challenge of installation? As an admitted non-user, I can't assess the field maintenance problems involved in keeping "The Gentlemen" working smoothly, but I would guess that it can become misaligned. If so, the customer dissatisfaction caused by toilet seats stuck at 45 degrees could devastate word-of-mouth advertising.

Although John Galt Enterprises' marketing challenges may provide more humor material than yours or mine, many of the fundamental issues are likely similar.

How Do We Ask the "Appeal" Questions? Large companies devote whole departments with major budgets to "market research." We Es tend to market-test by a combination of personal gut feel and conversation with acquaintances and associates. Often, these resources fail miserably to provide a valid measure of the market value of our concept. To be valid, information sources should be:

- Outside our sphere of acquaintances to eliminate relationship bias. ("It just has to be a good idea if Johnny Smith had it." Or, more hurtfully, "It just can't be a good idea if Johnny Smith had it.")
- Representative members of the hoped-for customer set, or
- Bona fide experts

The notion of seeking direct (probably face-to-face) contact with potential customers may involve another trip outside the comfort zone, but it can provide crucial input. While this book can't construct market surveys for every business idea, the basic question set will likely include:

- What do you think of my basic business idea?
- How are you presently securing the value and benefit I'm offering (if applicable)?
- (If there is an existing resource) Would you consider yourself a happy customer? Why or why not? What would improve your satisfaction?
- How did you first learn about _____(your present provider)?
- How much do you typically pay per transaction?
- How often do you purchase?
- Do you feel you would give my business a try if we offer benefits a, b and c (located at_____ if applicable)?

While in the discussion, you should learn as much as possible about the mind of the consumer: motivations, turn-offs, the role of emotional issues vs. practical issues in

making decisions, the factors that help secure established loyal clientele, etc.

To the extent possible, prospective customer discussions should include actual demonstration of the product or service. This is particularly true of a new or highly creative concept. Pictures, charts or other visuals are next best. Purely verbal interaction is better than nothing, but obviously not as good as "hands-on."

Veteran entrepreneurs can provide valuable insight as you test the market-worth of your concept. Although your ego may take several shots, seek out a grizzled veteran who will absolutely shoot straight. You will be asked hard questions. You may be told that several parts of your plan need major work. But it is far better to receive negative shots from a tough but fair consultant than from the cold and callous marketplace.

It is likely easier than you'd think to find grizzled E-vets willing to counsel. A retired E may be available. If not, many active entrepreneurs are willing to share their knowledge, war stories, advice and warnings. And relevant help does not need to come from a person in precisely the same field. Many of the fundamentals of business operation—particularly sound marketing—apply to a broad range of businesses.

An indirect information source is available by studying businesses similar to yours. Find success stories. Find those who are struggling. What factors create success in the marketplace? What factors are missing when companies struggle? How does your product concept and service set compare to the winners and the strugglers?

As a practical matter, the very best source of market research for most Es is the early customer set. Many Es (perhaps using the philosophy of **Ready-Fire-Aim**) enter the battle before having all the market-test answers they should have. But rather than smile and say, “Hey, I’ve got some customers, I’m on my way!” it is better to say, “These early customers can provide wonderful information. I must try in every possible way to learn from them.” To the extent possible, speak with them directly. Include comment opportunities via cards or Internet feedback forms. Call them. Their information is crucial. Among the questions:

- How did you hear about us?
- Why did you decide to visit the first time?
- What was your initial reaction to our operation?
- Do you feel generally satisfied or dissatisfied with our company?
- Specifically, has anything disappointed you with our products, service, selection, administration, etc.?
- What suggestions do you have for improvement of our product set or service set?
- Do you think you’ll continue buying from us?
- If not, why not?

2. Prospective Customers & Revenue Opportunity

The first phase of our market research hopefully says, “Yes, our concept is appealing; and yes, it is appealing enough that customers will actually buy.” The second phase asks an equally important question:

Are there enough potential customers within our service radius to support our business concept? (By *service radius*, we simply mean the "geography" we can effectively cover. Radius can range from worldwide down to five miles from the shop.)

To answer the revenue opportunity question, we'll advance to Marketing 201 class. (Actually these high-sounding concepts mostly involve common sense):

- Market segmentation
- Market share
- Revenue opportunity per customer

Market Segmentation. Let's say we operate in a city of 100,000 population. With zero awareness of market segmentation, we might say that our potential customer base is 100,000. But we don't need a marketing degree to know that our actual prospect count is far less than 100,000. A sizable percentage of the city's population is less than five years old. Another percentage is well up in years. If, for example, we're selling sporting equipment, the issue of age will assuredly limit our market size. Here are some of the more common ways to segment the market:

- Age
- Male/ female
- Profession of household head(s)
- Income
- Homeowner?
- Age of home
- Value of home
- Location of home (city, suburb, town, rural)

- Proximity of home to a specific location (e.g., shopping mall)
- Educational level of household head(s)
- Children in the home
    - —Number of children
    - —Ages of children
- Interests and hobbies.
- Position on the technology food chain

  —Hardware

  —Software

  —Internet

  —Household gadgetry

If your concept sells into the commercial market, these would be typical market segments:

- Category of business (SIC code or other designation)
- Size in terms of revenue
- Size in terms of employees
- Located in city, suburb, small town or rural area
- Type of location: free-standing, office complex, shared industrial space
- Known purchaser of another product or service
- Advertising media / marketing methods utilized
- Trade show attendee
- Uses travel and/or outside meeting facilities
- Position on the technology food chain
    - —Computers
    - —Network
    - —Internet access
    - —High-speed Internet access

Every time we define a market segment, our available target market gets smaller. Let's put ourselves in the luxury boat business in our town of 100,000. We obviously can't sell to all 100,000. Our tip-top potential is probably limited to one per household, so the first cut reduces potential to something like this: 100,000/3.7 people per household=27,027.

If our boats sell to people earning $50,000 or more, potential drops substantially. If, during the last three years, we have sold to 20% of likely buyers (a measure of **market saturation**), potential drops again.

If we market men's hairpieces, market segmentation likely includes males / bald / annoyed about being bald / able to afford our hairpiece / willing to deal with various inconveniences.

When we're done with realistic market segmentation analysis, we have an idea of the likely maximum number of customers within our service radius.

Market Share. Market share introduces the unfortunate reality that you aren't the only E who may be seeking a piece of the market-potential pie. Large companies tend to have high awareness of the issue of market share and invest heavily in securing good "market share numbers." Some smaller companies ignore the whole concept. If your business concept is highly creative, you may not have a clearly identifiable set of competitors. Some Es are fortunate enough to operate in a market large enough that "there just seems to be enough business for everyone." But many Es need to be keenly aware of the

likely impact of competitors as they strive to analyze, and capture, market share.

As a classic example, many residents of small towns have shaken their heads when an upstart E opened a copycat version of a successful business. The established business obviously had a good idea with good market acceptance, so the envious newcomer says, "I can do the same thing!" But the newcomer should study up on market share analysis. A major reason for the established company's success was **100% market share** in a small market. If that market share gets split 60-40, we'll have a starving newcomer who has screwed up the market for the established veteran. Eventually one or the other will sink, at substantial cost to both.

Market share evaluation, like market segmentation, must be done with considerable intelligence. If we become the tenth restaurant in our market, it might seem logical to set our market share goal at 10%. But let's look deeper. Let's say our restaurant has an ethnic theme. Realistically, not more than 10% of the total market would ever try our specialty, so our real market potential *starts* at only10% of the total market. If we're the second competitor in our ethnic specialty and we think we can match that firm's revenues, we will have 50% of 10% = 5% of the total market.

The issue of market share must be considered both offensively and defensively. When we start, our primary goal is securing market share. We are definitely on the offensive. But two things may happen:

- Existing competitors may retaliate.
- New Es, seeing our success, may enter the market.

These possibilities cause us to think defensively. How much market share can we hold onto? While crystal balls are still not perfect, we must make every effort to consider competitive action in our market share analysis.

Revenue Per Customer. We're now ready for the third piece of the market size puzzle. We've determined that our reachable market has, say, 2,000 prospects for our product. We believe our realistic market share is 10%. So we anticipate attracting 10% x 2,000 = 200 customers. Variable #3 is how much each customer will spend with us every week, month or year. If a realistic projection of annual revenue per customer is $1,000, we have projected total revenue of $200,000.

The exercise of revenue analysis brings us face-to-face with one of the most important questions that face entrepreneurs: **Will my business generate a flow of repeat business from established customers, or must I constantly reach and sell new customers?** If you build houses, install swimming pools or sell "Gentleman"-brand toilet seat lifters, there will be little repeat business, at least in the short term. If you run an exercise club, a restaurant, a printing company or a consulting firm, you'll hopefully receive an ongoing stream of business from a growing, loyal customer base. If there will be ongoing purchases by the same customer, your revenue analysis must add the variable of **frequency.** So *annual* revenue, for example, becomes market size x market share x revenue per transaction x *annual frequency of transactions*.

Special note to non-math types! If this discussion has been a little math heavy, don't worry too much. We can

use formulas or we can use common sense. Basically we're asking, is my overall market large enough to be potentially worthwhile? Can I grab a large enough piece of the market to give my business a meaningful number of customers? Will those customers spend enough to support me in the manner to which I need to become accustomed, considering both their initial purchase and their possible ongoing purchases?

Can radius be expanded? What if your market potential analysis says, "Sorry, not enough potential"? Before folding the tent, you should explore whether the **service radius** can be expanded. Are there ways—for example, by advertising in a nearby city or by adding out-of-town shipping capability or by developing an Internet presence—to increase the size of your potential market? This analysis must be handled with great objectivity because you clearly *want* a favorable answer, and enough *want to* can lead directly to over-optimism.

Might we be production constrained? There is an important caution related to market potential. Our discussion thus far assumes we can physically produce and/or distribute the goods or services our customers are willing to buy. This assumption is critical and must be carefully examined. Do we have the resources—whether funds, equipment, personnel or distribution capabilities—to meet potential demand. If not, our practical market potential is "production constrained," meaning limited by our resources.

3. Reaching the Potential Market: A Combination of Medium and Message

We next ask, "How do I deliver my message to prospective customers?" Should I use mass media like newspapers, radio and television? Should I use more targeted media such as direct mail or highly specialized publications? What about the Yellow Pages? Should I use an outside sales force? Can I reach prospects via the Internet? Are there creative ways to reach my target audience that may not use traditional media at all, for example fund-raisers or sponsorship of local events?

The absolute key for new Es is finding an efficient method of prospect communication, and finding it quickly. As we said in Chapter 1, the ticking clock is a major concern. We must not waste time floundering for the right media. Obviously funds are precious and must not be squandered.

Judging whether a communication medium is efficient requires three separate considerations:

- **Reach:** the number of potential customers actually touched by the medium
- **Impact:** the degree to which we gained the attention of and communicated with potential customers
- **Cost:** the dollars necessary to achieve reach and impact.

It is possible to make extremely poor judgments regarding the interaction of reach, impact and cost. A common example is the suburban retailer who selects a metro-wide media. *Reach* is probably excellent. *Impact*

may be excellent. But *cost* is likely exorbitant because we paid to carry our message north, south, east, west and central rather than targeting our specific area. A better answer may have been "zoned" editions of the newspaper or products such as suburban weeklies.

The advertising woods are full of extremely low-cost media that claim substantial reach. "You can hit every household in the county for only a half a penny each!" But a tremendous number of these advertising vehicles are unseen, unheard or used primarily for kitty litter. Low cost is not a bargain without impact.

Many small businesses are best served by finding specialized communication avenues aimed directly at prospective customers. An E-friend built a decent part-time business from a fish-cleaning table he invented. His medium of choice, as you would expect, was fishing magazines. If we compare media by "ad cost per thousand circulation," the cost of a specialty vehicle will almost always be higher than that of a broad-based vehicle. But the efficiency can be far higher because we are aiming directly at our target audience. For this reason, direct mail can be a very efficient medium even though the cost per thousand may be 20 times (or more) than the cost of mass media.

Note the role of market segmentation in planning how to reach prospects. If we can determine that our ideal prospect is a male / father / homeowner / earning over $50,000, we can seek advertising vehicles that target this market segment. Certain publications may be appropriate. Purchasing a direct-mail list based on demographics is another possibility.

Advanced marketing thinking often strives for creative market segmentation; for example: "I'll bet parents of four or more children, all of whom are less than ten years old, are ideal candidates for a getaway cruise."

A direct sales force is the most dramatic example of achieving high marketing impact despite very high cost per contact. The cost will be high vs. almost any traditional advertising medium. Will that cost be justified? It depends on our industry, our product, the receptivity of prospects and the effectiveness of our sales people.

Avoid marketing/media planning by default. Since many early-stage Es don't have every media-selection answer, there is a danger that I will illustrate by a slightly embarrassing personal story. I had decided to launch an advertising campaign for the fledgling Unified Neighbors concept and had blocked out a day to hear four sales presentations from advertising companies. Two of my employees later confessed to this hurtful exchange:

Employee A: "Bill has four appointments today to hear advertising ideas."

Employee B: "Any idea which one he'll choose?"

Employee A: "Probably depends on who wears the shortest skirt."

Of course, I deny totally that skirt length could have possibly swayed my judgment, but it illustrates an early E dilemma. You likely have no professional consultant to call on; and the woods are absolutely full of media sales people eager to help you. It is easy to fall into the sway of the most effective media sales person or to lurch from sales pitch to sales pitch, trying various media.

A key objective is development of a formal, written marketing plan covering the next several months at a minimum. It is also very helpful to become a student of marketing within your industry and in businesses similar to yours. Whether you use books, chatrooms, classes, seminars, networking opportunities or organized study of the actual marketplace, gain the knowledge to put together your own marketing plan. Then become the hunter rather than the hunted in terms of media vendor relationships.

Avoid stop-go marketing/media planning. Over the years, I've spoken with at least 25 Es on some variation of this theme: "We got so busy, I put marketing on the back burner. All of a sudden the pipeline emptied and we started marketing furiously…got busy again, quit marketing and the cycle started all over."

Another key reason for your written marketing plan is improved likelihood of a consistent marketing effort. The basic elements should *just happen*. The plan can be somewhat "activity sensitive," with provision to increase or decrease intensity as revenue levels fluctuate, but the key is preplanned activity that rolls out through time.

Avoid the Greatest Error of All. Book 4 of The Entrepreneurial Five Set talks about turning around your own business when the going gets tough. Let's touch briefly on a related, remarkably common business error. Budgets are tight. Dollars are being carefully allocated. *So we decide to eliminate major portions of the marketing budget(!)*. Granted there may be turnaround situations in which this step is correct because of bloated or ineffective marketing. There may be other cases in which it is survivable for a short period while other problems are

being addressed. But in general, it is akin to saving water during the dry spell by not watering your garden. Turnarounds are tough because problems beget problems and things can spiral downward at an accelerating rate. Failing to market when embattled can lead to a revenue drop that leads to more cost cutting, etc.

A principal of turnaround thinking can be borrowed from the old naval warfare concept “If we’re going down, we’ll go down with all guns blazing.” With that attitude, there’s a chance of turning the tide and winning. If the marketing guns stop blazing, the only question is *when* we go down, not *whether*.

How much do you spend on marketing? There is no right answer, but an answer from the previous section would be “enough.” Most business categories have researchable financial data such as average gross margin and average percent of sales spent on advertising, promotion and selling. Your early business plan thinking hopefully included a dollar assumption. The only uniform advice is this: *Develop a budget that is affordable while providing necessary impact, and then invest that money wisely and consistently*.

Study cable/direct television. If someone had told me in 1955 that I would have 60 channels on my television and was only a small dish away from hundreds more, I would have scoffed. (We had three channels, and one of them didn’t work very well.) These media—as they splinter into improbable subsets like The Quilting Channel—provide a potentially affordable avenue to your market segment.

Study the Internet. The Internet brings a new tool to the E toolbox. Some have made it their avenue to the ballgame as attested by a host of companies with names like Eggplant.com. Some are riding the power of established Internet forces such as Amazon.com or eToys. Some are integrating web technology into production and administrative functions. Some are making their website an integral part of marketing and customer interaction. Some have dabbled only as far as a non-integrated brochure site developed by their nephew who took an HTML class in college. Somewhat surprising, a large group of businesses are ignoring the Internet completely.

In this E's humble opinion, this one should not be ignored. I watched the printing industry revolutionized over a period of about eight years by desktop publishing and the digital applications that flowed from its momentum. The Internet as both trend and tool is much more powerful than desktop publishing. I truly believe that ignoring it risks destruction at the hands of competitors who are there to capitalize on the momentum.

On the other hand, it is not a miracle worker. A struggling restaurant doesn't develop a website, receive 40,000 hits and become an overnight success. There is a huge amount of "noise" on Internet search engines (as you'll quickly discover if your business name has even one word remotely akin to the world of fetish). So the Internet must be understood realistically in terms of use and potential.

Nonetheless, it can be immensely helpful to small business. As one simple example, a growing number of consumers research their purchases on the Internet. They

are there for facts, comparisons and ideas. If selling your concept has a high fact-communication requirement (especially if telling your story is aided by color pictures), the Internet can be a powerful addition to your present marketing programs. It may not replace other advertising; but at every opportunity, you deliver the message, “For more information, visit us at http://www.mysite.com.” Suddenly you have a low-cost salesperson who can talk to multiple people at the same time and is willing to work 24 hours per day at no additional wage. It’s hard to pass that one up.

As Internet technology matures, audio, video and various interactive possibilities will further expand the uses of this medium. Again, those who delay risk an insurmountable competitive disadvantage, particularly as the applications become more sophisticated.

Consider publicity. If your business concept or your entrepreneurial story can be made newsworthy, consider press releases. Professional help is available in the phone book and may be as near as the journalism graduate who lives in your neighborhood. Some ideas make interesting topics for radio (or TV) talk. Some are unique enough to earn a mention on late-night TV or in humor columns of the type written by Dave Barry.

A powerful argument for seeking publicity is **leverage.** The attempt at publicity is usually low cost. Odds of success may be low, but the potential return is very high if you manage to ring the bell.

Developing your marketing message.

Excellent selection of communication vehicles is worthless unless your communicated message is effective. Here are some considerations:

Strong, Distinctive, Confident, Bold—Many of us were taught that humility is good and bragging is bad. But in a marketing sense, it's usually necessary to present your idea just short of that line where confidence becomes obnoxious. Much of the reason is competitive. The jackleg down the street will sure say he's the best, so you'd better not sit by too quietly.

Benefit Oriented—Every time I go by an "under new management" sign, I worry about the marketing savvy of the new E inside. What does that mean to me as a consumer? If I knew the place was an absolute mess before, I most likely wonder what kind of fool would have bought it. If it was a pretty good place before, I wish it had been left alone. It's pretty hard for the consumer to find much benefit in the marketing message "under new management."

Look at any large daily newspaper and you'll find an amazing number of ads that bury benefit under self-serving headline copy. Consumers tend not to care that we're celebrating "Our 10th Anniversary"; they'd rather know what's in it for them.

Watch the Ego—In most cities there are Es "starring" in their own TV ads, and, being charitable, a randomly selected member of the broadcast journalism sophomore class would surely have done better. Often the problem is a triumph of ego over good marketing judgment.

This one is complex though. When Iaccoco for Chrysler and Kiam for Remington took to the airwaves, they weren't professional faces or voices, but they successfully delivered marketing messages important to their company. So it can work. If your field is full of hucksters and con men, if your marketing message is trust and integrity, and if you successfully convey trust and integrity in a personal advertising message, plow on. But if your heart of hearts motivation is a desire to see yourself in lights, be careful.

As in many E issues, the real key is objectivity. Get opinions about your personal campaign idea. Then get objective appraisal of its effectiveness. Your advertising sales representative won't give it to you. Your spouse or mother probably won't give it to you. So find people willing to tell the emperor whether or not he has clothes.

Action Oriented—Be sure that your message clearly suggests the prospects' next step. Large companies can apparently afford the luxury of purely image advertising. Some well-known athletic gear companies don't even bother to mention their name, letting a swoosh do the talking. Most of us Es don't have that luxury, so it's important that our message clearly communicate what happens next: call, visit the website, send the reply device, whatever represents the next step in the process.

A related action issue is **urgency,** a reason to "do it now." As the noise level of American marketing increases, urgency is becoming increasingly important. If you don't secure action in the brief time you have attention, you're likely shuffled to the bottom of a very tall stack.

True—Companies large and small have trouble with truth in advertising. We're not talking here about out-and-out deception (hopefully clearly a bad idea without commentary from Bill Corbin), but rather consistency between message and consumer experience. A good friend worked for a well-known national brokerage when the TV campaign broke talking about a whole new approach to customer service. More help. More knowledge. Great stuff. Problem was that *no one* in New York communicated to the field offices that anything had changed. There was no more help out there. No more benefits. Same old stuff. Worse, no one even told the field that the campaign was breaking. So when people called about the "new derivatives package (or whatever)," they got nothing new except more busy signals and longer service waits.

If we've opened an upscale business of almost any kind, our message must convey upscale, and the experience had better be upscale, especially if our prices are upscale. If we say "great fun for kids," then we had better deliver great fun for kids as analyzed by the only relevant yardstick: what the kids really think. If they're driving home berating their parents for "another yukky idea," we need to revise our message or our reality.

Understand the role of distribution channel. An early strategic decision relates closely to many of our marketing decisions. At the broadest level, you decide whether to "sell direct" or sell through other business entities. **Direct** usually means that your employees handle every aspect of the marketing/sales process. They place the ads, field the calls, close the deal and hand over (or ship) the goods to customers. **Selling through others** usually

involves distributors or dealers who assume many of the marketing/sales functions. Dell Computer chose to sell direct, making powerful use of the Internet. Compaq was closely tied to a retailer-based distribution channel. It appears that Dell's choice was better. Here are some of the issues for small business:

- Selling direct provides more flexibility and control.
- Selling through others often provides more market presence than the E can afford going solo.
- Selling through others has a cost usually reflected as a percentage of final retail price. In many business models, distributors operate on a 15% markup; retailers operate on a 40 to 60% markup. If the E can efficiently reach the end user, much of that markup can be retained.
- Selling through others may provide functional skill the E does not possess. An obvious example would be overseas marketing where familiarity with, say, the Russian language is important.

A good distribution channel decision is extremely important as it tends to establish the direction of all other parts of the marketing mix. If we sell direct, we must learn to interact effectively with end users. If we sell through others, marketing emphasis shifts:

- We must learn to **sell to** distributor/dealers.
- We must learn to **sell through** distributor/dealers, meaning we find ways to assist our distribution partners in successfully selling our products.

A serious small business dilemma is earning the attention of a distribution channel. If we are a one-product company working with a distribution channel geared to giants, we will struggle for attention. A common analytic tradeoff runs, “Am I better off working with small companies with limited power who find my idea interesting or giant companies with immense power who view me as small potatoes?”

4. The Final Step: Making the Cash Register Ring

For some businesses, effective advertising leads directly to the cash register. The prospect sees our ad, pulls our coupon and brings it to the store. For others, there is a potentially complex final step: closing the sale. This final step may occur on phone, Internet or selling floor. Very often it involves face-to-face selling where everyone’s classic example is the trip to the car dealership (still the stuff of great stand-up comedy routines). But in businesses from real estate to insurance to computer software sales, the final sales process is likely direct and personal.

Since there are a hundred final phases for a thousand-or-so industries, we will generalize:

Study your process diligently. Obviously, the process of finalizing sales is the key to success. Brilliant consumer analysis and advertising go for naught if we fail to make the sale. Know the customer. Know the competition. Know your people and their skill set. Analyze wins and analyze losses. Call some of the people you lost and ask for a candid assessment of their decision process. Why did you select a competitor? Know your statistics, and strive constantly to improve them.

This may be a very complex analytic process. You may be losing final sales because your sales people are too aggressive, but it may be because they aren't "asking a closing question" well enough. You can analyze the sales process intensely and perhaps make a decision to become more aggressive when the real problem is price or product selection. Whatever the issues, you must study diligently and understand well the final selling process.

Be as aggressive as makes sense. This is a truly tough issue. During a vacation to Cancun, my wife and I foolishly accepted our hotel's "free gift and breakfast if we were willing to tour the hotel and learn how to save money on future visits." Breakfast was fine, the tour was OK, but soon we were in a sales room where we would learn how to save money. Long story short, it was a timeshare concept, investment was in the range of $10,000, and the heat was on. We resisted one sales pitch. A heavy hitter hit us again. We resisted. Our breakfast partner returned to lighten things up. A bigger hitter hit us again. We tried to decline gracefully and exit but ran into a thousand or so reasons we should stay and buy. The price of the deal started coming down ($6,500 by the time we departed) and the heat kept turning up. I finally said something like, "Look, friend, I not only won't buy but I truly resent a resort screwing up part of my vacation by high-pressure crap like this" (or words to that effect) and we literally pushed our way out.

In a personal sense, I hated the experience. As a marketer, I understand it (except for the fact that I wouldn't go back to that resort if it was the only oasis on the hot plains of hell). The marketers knew they had one shot. If

we got out of that room, we were lost as prospects, so they went for it.

Every business has some combination of window of opportunity and time frame of potential interest. You need to understand your windows and develop your sales finalization process accordingly.

Is your personal style compatible? It is vital that the E selects a business that is within the personal comfort zone in regard to treatment of prospects. I could not personally run a business that involves intense bombardment of prospects until they either buy or punch me in the nose. Therefore, I *must* select a business concept that does not require aggressive direct selling of this type. But there are more subtle possibilities. Intangible products from insurance to investment vehicles likely require a reasonably aggressive closing process. Be sure to understand the likely process **before** you enter the fray. There is nothing sillier sounding than a failed E exclaiming (usually after a couple stiff ones at the pub), “Well, once I realized that making a sale required me to take a guy to lunch twice and visit his office at least three times, I said ‘no way I’m gonna do that’.”

Does your concept require a sales force? The process of hiring, training, motivating and controlling a sales force is (understatement coming) a difficult challenge. The E must make sure all aspects of the process are consistent with the business strategy. For example, if your strategy calls for intense customer service to develop and maintain loyalty, your sales force is different from the team that will go to war daily to deliver a new wave of aluminum siding clients. They are different in talent, temperament and

percent salary vs. commission. The two ends of the spectrum are:

- Aggressive “100% commission” types who will badger their own mothers until mom buys or throws them off the porch,
- Kind and gentle “100% salary” types who love existing customers to death but, during grade school, were uncomfortable selling fund-raising candy-bars to their own mothers.

The marketing challenge is finding the right point on the spectrum (20% commission, 80% salary? 10%-90%? 50-50?) and finding sales people with the right talent-temperament qualities to fit your business strategy.

Unless you are comfortable with this whole process, it is mightily tempting (and quite possibly wise) to hire a sales manager to handle it. But it is crucial that you have a clearly defined strategy that your sales manager clearly understands and is comfortable with. It is a surprisingly common error to hire the equivalent of an aluminum siding sales manager to build a sales team that will call on gift and antique shops. “Get out there and bang on ’em ’til they buy, boys!”

Perhaps best for the early-stage E is intense study of successful companies in the same or similar businesses. Their model for sales force deployment is likely a good benchmark.

Word-of-mouth is amazingly powerful. The previous discussion covers more or less “textbook” marketing ideas. Here’s a concept that cannot be ignored, but is much harder to explain. It is possible to make word-

of-mouth a *very* important element in your marketing mix. UN Printing & Mailing was built to a $3 million volume level primarily by word-of-mouth advertising. We do not use a traditional field sales force. Instead, we give near fanatic attention to issues of customer service. Your business may be more or less oriented to word-of-mouth than mine, but don't ignore the potential role of WOM. Here are some issues:

Word of mouth advertising is not free. To earn WOM requires an investment in customer service that is greater than that of your competitors. If you are in dispute with a customer, you may bend over a little further backward than you would need to…or than your competitor would. You must also "surprise on the high side" in various ways, and there may be costs.

Word of mouth can be encouraged. You can actually ask your customers to tell others about you. Methods can be subtle or can involve some variation of a finder's fee, but nothing will work if you aren't providing unusually good service.

Word of mouth is a two-edged sword. Just as customers can recommend you, they can also say, "Don't go within ten miles of that place. Here's why…." So awareness of the potential role of WOM includes awareness of opportunity and risk.

DON'T LET MARKETING SLIP!

The real key to long-term entrepreneurial success is marketing. Yet it is often treated as a back-burner activity—sometimes ignored altogether. Be sure to develop and execute excellent marketing programs.

To Ponder and Discuss

1. Why can marketing slip easily to the back burner? As a time priority? As a money priority?

2. List examples of very ineffective marketing campaigns. Why were they ineffective?

3. List examples of marketing campaigns that correctly defined market segments and efficiently/effectively reached those segments.

4. Which is more important: media, message, or sales closing technique? If you can only improve one at a time, which would you start with?

5. Do you believe that effective marketing can overcome a "bad idea"—meaning an idea that does not seem to fill real need?

6. Why is a 100% commissioned sales force wrong for a business that builds and nurtures long-term relationships?

7. Why is a 100% salaried sales force probably wrong for a business that sells advertising or life insurance?

8. What do we mean by fit between your business strategy and your selling strategy?

9. Take a specific business idea and list the pros and cons of selling direct vs. selling through others.

Chapter 3

Customer Philosophy / Customer Values

I was well into my E career before I understood the key role of a philosophy of customer service. The stumbling evolution of my philosophy is probably instructive if not inspiring, so here it is.

I was sitting on a barstool at Muldoon's about 5:30 one very grim afternoon in the printing business. There had been an ugly debate with a customer who had behaved, at least from my end of the telescope, like the south end of a northbound horse. On the other side of the bar was my good friend Fred Cameron. Fred had done duty in the Federated department store system, then launched a successful discount ladies' wear shop. His latest venture was Muldoon's, a place that understood the "Cheers" concept before anyone had heard of "Cheers."

"Man, it was bad," said Corbin. "This customer ripped us to shreds publicly and demanded a full refund even though he had signed a proof OKing his artwork 'as is'. He kept saying, 'You're supposed to be the professionals. The words were right on the copy I gave you, and I counted on your typesetters to give it to me right.' He didn't give a hoot that our proofing form makes it 100% clear that we don't provide proofreading and the customer is responsible for pointing out typos." "What'd you do?" asked Fred. "Well," said Bill, "after a nasty exchange, I

remembered the old adage ‘the customer is always right,’ and decided to let him have his way.”

Fred asked, “Do you know where the idea ‘the customer is always right’ came from?” I didn’t, so he gave me the history. Early in his career as a retail empire builder, J.C. Penney developed the “always right” concept **as a philosophy.** His concept was revolutionary, but his reasoning was simple. If there was a customer dispute in one of his far-flung stores, and if the local clerk or manager was empowered to act as judge and jury, Penney’s customer service philosophy would be an absolute hodge-podge based on the mood and temperament of individual clerks or managers. By instructing the entire system to yield gracefully in all disputes, Penney assured uniform treatment of customers throughout the retail system.

Note this important distinction: Penney did not say “the customer is always right” because he believed it was 100% true. In fact, he well knew that some unscrupulous customers would take gross advantage of his philosophy. But the philosophy was consistent with his expansive, and hugely successful, business strategy and has been widely utilized ever since. Nordstrom’s, as one well-known example, has taken the philosophy to legendary heights.

Thirty or so years ago, a related concept floated widely: “You can’t afford an unhappy customer.” The premise was that the cost in terms of negative word of mouth is higher than any possible cost to gracefully rectify a dispute.

So, early Corbin philosophy, if there was one, was an unenthusiastic “always right” posture. In a period of about three months, three events changed my mind:

A lady dropped in to order business cards. She asked for help designing a logo for her beauty salon (called Shear Something-or-other). I said we don't do logo design. She said, "Oh, c'mon, all I want is a flowing S to go with the 'Shear.' That can't be any big deal." I said we don't do logo design work because our art team was busy on newsletter-type printing projects and we'd found that good logo design takes too long because it is too subjective. She absolutely insisted, promising not to be fussy about the design we gave her. Several art hours and seven S's later, I (reasonably politely) told the lady to take her S and go away forever. I received no money, but learned a valuable lesson. I imagine, had I stuck with an "always right," philosophy, my children and my grandchildren after them would still be reshaping the lady's S.

Another lady(?) became a reasonably large client but was so amazingly arrogant and rude that she invariably trashed the day of any employees she encountered. After determining (by listening from an adjoining room) that my people were accurately describing the verbal and emotional abuse, I decided to fire the client on behalf of my employees.

Shortly after that, the female manager of my ill-fated *The Printing Place* venture called to report spending several uncomfortable minutes trying to keep a Saxon copier between herself and the groping hands of our "best client" (in terms of dollar volume anyway). So I fired him too and decided that customers aren't always right.

Once we left the relatively clarity of an "always right" philosophy, we had to develop a corporate attitude toward customers that (1) made good business sense; (2)

had room to say "enough" to unreasonable clients; while (3) assuring that good judgment was used in any such confrontation. A competitor's stupidity helped me develop part of the answer.

I was working our front counter in something like 1984. The owner of a growing home inspection business walked in, threw a form down on the counter and said, "Does this form look crooked to you?" I agreed that it looked a little crooked. "If you were my regular printer, would you reprint it for me if I told you it was crooked?" he demanded. "Well, uh, sure," I said. "Well, [a competitor], the blankety-blank, blankety-blank down the street told me I'm being unreasonable; that the form is usable; and that there's no way he would reprint it without charging me. I do $10,000 per year with him. I can't believe it." Neither could I, so we printed the crooked form ($48 worth at retail value) and became printer for the ten years until the company merged with another firm. Our ten-year revenue was over $150,000 taken from a competitor who battled his own customer fiercely for $48 retail—probably $20 at actual cost.

From that encounter, we articulated the notion of a "valued customer" where valued is a combination of reasonably high ongoing business activity and reasonably reasonable business dealings.

As we better understood our industry, we realized that success required adding value beyond paper and ink. We realized that many clients are seeking counsel in how best to plan and execute complex projects, so we decided to become genuine printing/mailing consultants – even if the short-term result was reducing the price we might have

been able to charge for specific projects. From this concept, we evolved the notion of seeking genuine **partnership relationships** with our **valued customers.** We would provide help, fair prices, and intense attention to product and delivery issues. We would expect fair dealing and participation in the process such as timely return of proofs as required to help us stay on schedule. After climbing this mountain (It was a pretty long way from groveling for clients in our early days to declaring ourselves equal partners in the business relationship.), the issue of handling disputes also clarified.

We maintain one aspect of “always right” thinking: asking ourselves, “Is there any way this dispute can reasonably be declared our fault?” And we set the mark high. For example, if our quote letter was confusing in any way or if the customer might have reasonably assumed we would notice an obvious error, we declare ourselves guilty and resolve the issue without fuss. Our criteria is not “legal,” but rather “what should a client reasonably expect from a company they are relying on as *highly* professional, meaning, in part, *better than competitors?”*

If, after harsh introspection, it is clear that we have been fully professional—hence that the customer’s position is unreasonable—we next ask, “Is this a valued client-partner having a bad day or a bad partner having a typical day?” If the answer is “valued client,” we find a way to resolve the matter as smoothly as possible, even if there’s cost to us that no jury would reasonably require us to pay. The overriding goal is *living to fight another day* and would be the basis on which UN would not have lost the home-inspection company’s $150,000 worth of business. If the

client is not in our valued partner category, we will not bow to unreasonable positions or demands.

On perhaps ten occasions, we have fired clients; usually because of abuse of our employees, blatant dishonesty or totally unreasonable business dealings. We reserve the "right to fire" for the president of the company, but all employees know they will not be asked to absorb unreasonable treatment and are empowered to notify our management team of any concerns.

Avoiding Letting Jerks Dictate Company Policy—The most subtle message in J.C. Penney's "customer is always right" strategy is keen awareness of his key to success. Penney was appealing to middle-America. He had great faith that the vast majority of his customer base were fair and reasonable people. He was willing to absorb the cost inflicted by the few jerks so he could serve the vast majority extremely well.

Too often, fledgling Es are burned by a few jerks and begin making increasingly harsh customer policies to avoid further abuse. The problem, of course, is that the core customer base—the good folks—can be alienated by harsh policy. Ironically, a dedicated jerk usually finds a way to circumvent the policies anyway.

The Employee-Customer Interaction—The Corbin story shows a clear orientation toward valuing employees above customers in matters of dispute. I would argue, in principle, that this is correct priority setting, but there is a tremendous burden on the E to be sure the right person is being backed. Employees can be tired, moody,

unreasonable, surly and worse. The mere fact that an employee feels abused does not declare the customer guilty. It is important to hear, blow by blow, what happened. If it is possible to hear from both employee and customer, the ability to make judgment is much improved. The previous section warned of creating overly harsh policy toward customers. Be well aware that some employees, at least on some days, can take a policy you thought made sense and turn it into a mace can to be sprayed in the customer's face. Often the problem is attitude, not policy. As just one example, a women's wear clerk can gently explain the reason for allowing a customer to take only three items into the dressing room at one time. It is also possible, by words or inflection, to make the customer feel like a recently released convict being closely watched by the authorities.

The One-Bite Theory—Many states allow a dog one bite before the owner is responsible for harm done to passing joggers or bicyclers. This concept is useful in client relationships. If a client behaves badly but short of totally unacceptable, make a "that's once" note somewhere and allow the relationship to develop. If the dog bites again, you probably know all you need to know.

If You Patch, Patch Gracefully—A dumb and dumber scenario is letting the customer know (by word or attitude) that he is an absolutely unreasonable idiot, *but* because you are fair and an obviously superior human being, you will make the financial adjustment necessary to resolve a dispute. This tactic assures that you lose both the

adjustment money and the customer. If you intend to "make things right," do so with grace, poise and polish.

Willingness to Invest in Customer Relationships (and Employees)—In most customer disputes, there is money involved, either money to patch the problem or revenue you will lose in the future if you side with an employee and toss a client. In either case, it is important, as a leader, to be "bigger than the issue of how many dollars are involved in this specific transaction." Even if the dollar amount feels substantial, the future value of your client or your employee is likely far higher than the amount at issue in a single dispute.

Another Investment…Training—In the old days, duels to the death were started by a gentle cheek swat with a gentleman's glove. Many employee-customer duels are started by a single ill-chosen word or by poor technique in handling customer ire. But there are learnable ways to defuse problems. Over the years I've had more practice than I wish… so here is Corbin in action: A client calls and winds up talking to me: "Mr. Corbin, based on the experience I just had, your company stinks out loud. Your people are goofballs and, although I haven't met you yet, I'm 100% confident you're a goofball too." In my younger days, I might have taken a bit of offense. Today I strive for the high road. "John, I don't know if you'll believe this at first, but I am 100% happy you called me. No company president likes to hear that he's got problems, but I've got to know about them. So your call is truly valuable to me. Please start from the beginning while I make careful notes."

We then go through the incident. I ask relevant questions, and then promise a full investigation and follow-up report. I thank John again for calling, dig into the matter, and I make good on the promise to report back.

Some customer service people are naturally gifted in dispute handling. Others become combative; others become jellyrolls. Internal or external training can be helpful in improving skill in this vital area.

Value: Customer Service's Strategic Issue—We've saved the big picture issue to last. There is an ongoing conflict between the goal of full customer service and the goal of making a profit. In manufacturing companies, the conflict often plays out between the sales department and the production department. Sales wants more variety and quicker delivery time. Manufacturing wants longer production runs of fewer items. Henry Ford spoke for the manufacturing side in the early days of his auto company: "They can have any color they want (talking about his Model T) as long as it's black." General Motors under Alfred Sloan developed the broad choice concept that became Chevrolet, Pontiac, Oldsmobile, Buick, Cadillac, and enjoyed a strategic triumph that lasted for decades. On the other hand, RCA, when it elected to battle IBM in the mainframe computer business (circa 1970), offered a line too broad to be supported effectively and was crushed by the entrenched giant. These issues face small companies as well as large. In the restaurant field, the question is breadth of menu and size of service staff. In the training field, it is breadth and depth of "classes" to offer.

The balancing act is delicate. If our customer offering isn't good enough, we can't build the business. If it's too broad, we may not be able to afford the facility, people and inventory necessary to support the strategy. If this issue is relevant to your business concept, study it well—study your own business *and* the examples of successful and failed enterprises facing a similar strategic choice.

Less can be enough. It is important to examine the possibility that a reduced product offering will fully satisfy the majority of customers. Effective limited-menu restaurants have dramatically demonstrated this possibility.

What does the customer value? Thus far we've talked about breadth of our product offering. Equally relevant may be other components of your business mix that are valued (or not) by clients. Possibilities include things like convenient parking, a playroom for kids, highly-skilled service help, or sophisticated ambiance. For many Es, the key to success is careful study of customer desires followed by *sharply focused* investment in those things important to the customer. Done well, this concept helps a small business counteract the greater economic power of large competitors. Done badly, the E can waste precious resources. As a simple example: if an E assumes that clients must have a very upscale ambiance, a large investment may be poured into wall-coverings and plush leather couches. If, in fact, the customer doesn't much care about ambiance if the product is good and service-help is knowledgeable, resources have been misallocated

It's safe to summarize that no single customer philosophy is right for everyone. There is an amazing

restaurant in Boston that offers great prime rib brought to you by the rudest waitress team in America. They've raised surliness to an art form, and it works for them. We must understand the customer, build a "service-set" that works, and execute relentlessly.

To Ponder and Discuss

1. Do you basically believe that the customer is always right? Will he/she be in your business?

2. If the customer isn't always right, who will decide that they are wrong?

3. How does the "live to fight another day" concept apply to customer service?

4. Why is it important for a multi-employee company to have clearly defined customer pollicies?

5. How do "bad apples in the customer barrel" affect company policy? List examples of business policy that are too harsh for mainstream customers of that business.

6. Does the concept of long-term investment in customers and employees make sense? Give an example that illustrates this idea.

7. List examples of companies that offer more customer service than is needed (selection or assistance)…companies that offer less than is needed. companies that have misread what customers really value.

Chapter 4

Developing Your Employee Philosophy and Building a Team

If your business uses, or will use, employees, you need an employee philosophy that is (1) consistent with your personal style and (2) consistent with your business strategy.

Your Personal Style

Here is a great big question: **Can you delegate?** Book 1 of *The Entrepreneurial Five Set (Are You Cut Out to Be an Entrepreneur?)* discusses this issue at length, and your author weighs in with the opinion that an E who can't learn to delegate is doomed to long hours and limited growth. But if your honest answer is "NO, I simply can't give up important authority and responsibility," that answer is key to the kind of employee team you need to build. Basically, you need to develop a team of "good soldiers," people who will accept authority, follow instructions and serve loyally. If you are a "can't delegate," and you hire a team of restless spirits yearning to be free, there will be trouble from the get-go. On the other hand, if you believe in delegation, you must build a team of people who can accept responsibility, make decisions and operate independently. Note, however, that even these free spirits must be willing to work harmoniously within the corporate

culture and goal system **you** establish. (Sometimes we Es ask ourselves, "Why am I doing this?" and one of the answers is that you brought the ball and bat and you get to make many of the game's rules.)

As you hire, it is important to ask the questions that help correctly assess that new employees will fit your personal leadership style. Some companies, especially for positions working directly with the E, use psychological testing to measure compatibility. Others develop their own set of "situational questions" in an attempt to anticipate how a prospective employee will perform.

Your Business Strategy

My early career as an E was extremely cash-strapped. I developed the mindset that I couldn't afford to pay top dollar for much of anything, so developed an employee strategy of hiring cheap and hoping to inspire progress and growth. Now and then it worked, especially when we happened on a capable young person eager for personal growth. But for the most part, I learned that people willing to work cheap soon make clear why their price is so low.

Nonetheless, the strategy worked in the early days of our printing business because our market strategy was price-based. We were across the street from a PIP shop. Steve Allen was on TV convincing people that PIP's prices were low. I set my prices 10% under their prices and still had a gloriously high profit margin. Because people came to my business looking for low price, my slightly wobbly employee team was consistent with the strategy. Putting it bluntly, if we screwed up, no one was surprised. We added

the concept of “cheerful (and fast) correction of errors” to our customer service philosophy and were doing just fine.

In 1988, having predicted the glut that eventually swamped “quick printing,” I attempted to move our company “upscale” into higher quality commercial printing. In a spectacularly dumb move, I attempted to mold our quick print team into a commercial printing team. I did not hire an experienced manager or a team of grizzled industry veterans; and, as you might guess, for about five years we got our fannies kicked in the competitive marketplace. Finally we got the technical act together and became competitive, partly by infusing expertise from the Muncie, Indiana commercial company we had acquired.

Today, with a strategy of high quality service and performance, it is imperative that we pay the price necessary for a quality employee team.

Your Coaching Skill

An aspect of your leadership style is your coaching skill, where coaching means your ability to train and motivate an employee team. Being honest, I’m a lousy trainer and have never done a good job of incorporating training in our corporate culture. (When new employees ask about the training process, they are told something like “Bill believes in teaching you to swim by pushing you off the dock.”) If a company does not have good training protocols, it is imperative that new employees already know how to swim. If you are a strong trainer, you may be able to pay a bit less and increase employee quality through your training efforts.

As an aside, here's an interesting example of the value of a delegation philosophy: My bindery manager, a veteran of big-company training systems, asked if I minded if he set up something like an apprentice system that would systematically train capable new people. Despite my personal weakness as a trainer, I had the good sense to get out of his way, and his program has brought along some real quality in our organization.

Building the Team

There are at least 1,001 "secrets" to building an effective team. Book 5 of the Five Set (*Entrepreneurial Savvy*) covers the subject in more depth, but here are some key concepts:

Expectations Must Be Clear. Every new hire must experience an orientation process that makes your expectations as clear as possible. Our hires receive an employee manual along with verbal discussion of its key sections. In my opinion, an employee manual is absolutely crucial, even for very small E enterprises. There should also be a written job description, even if you customize it for each new hire.

There Must Be an Evaluation System. Whether your process is detailed or only semi-formal, every employee should receive a periodic evaluation. Old-line thinking calls for an annual review. There are a variety of ways to measure personal productivity, sometimes on a daily basis. Many newer enterprises are incorporating short-term bonus systems that serve as almost immediate employee feedback. Whatever the system, employees should know how well their performance measures up.

There Should Be Goal Setting. Some jobs lend themselves to numerical goal setting: sales quotas, efficiency improvement, etc. Others may be project oriented: we will accomplish A, B and C before the end of the year. Specific skill addition is another worthy goal—e.g., to fully utilize a certain software package within a certain time frame. These goals should be in writing and as "measurable" as possible.

There Should Be Reward for Accomplishment. Our company has utilized quarterly bonus checks based on profitability. We're still looking for good ways to make incentives be more immediate. However it's accomplished, there is no doubt that employees are motivated by tangible benefit from extra effort.

You Must Demand a Professional Atmosphere. Here's one I learned slowly but hopefully fairly well. In my early E days, I thought my team would be excited about helping build the business and would work together smoothly to build a bright future. Then one day I noticed an annoying thing: Some of these people don't like each other much. In fact, some of them are outright petty and hostile. Once in a while, I felt like the teacher-on-duty at sixth-grade recess, trying to keep Jimmy and Johnny from coming to blows.

Eventually, I backed away from the fantasy of a happily harmonious team and drew another line in the sand…and at this line we firmly stand. Our concept is **professional cordiality**, and it says this: Although it is ideal if employees are compatible and enjoy working together, the company understands that it cannot mandate that employees like each other. However, we do insist on

professional cordiality. This means that any communication necessary to effectively conduct business will be handled on a timely, cordial basis. It means that our customers will see no evidence of hostility or conflict between employees. It means that personal hostility will not effect the morale of other employees.

You Must Be Willing to Fire. Firing is an ugly moment in the E experience. It is difficult mentally and emotionally. For many of us Es who are non-confrontational by nature, it is an event we tend to postpone as long as possible. But if a cancer is growing, it must be cut out.

My first firing was made easier by the firee. We had set up a hand-work section to insert printed products in shipping cartons. I stood across the room watching one of our new hires. He was leaning well back on his chair with one foot on the worktable. From this position, he stretched an extra couple feet for every pickup. Besides his questionable posture, he was moving at a snail's pace. I walked over and delivered a fair performance assessment: "John, if you were inserting at twice your present speed, it would still be half as much as we need. Can I help you figure out a better way?" So we worked on methods to increase production and things picked up a little. Later that day, in a conversation that showed John to be stupid as well as slow, he said to one of my long-time employees, "I don't know if I can work for a demanding [body part] like that." Word (including the body part to which I was likened) filtered to Corbin. Corbin confronted John with the question of whether he could stand our pace. John said he was not much for sweatshops. Corbin fired John.

In the John story, there are four keys to the firing question, 2.5 of which I handled fairly well:

1. Assess the performance. If an employee is performing unacceptably, you must **know** it and **communicate** it. **Knowing** requires performance yardsticks. **Communicating** requires clear verbal or written notification that performance is unacceptable. If the issue is not production related, measurement is more subjective, but no less crucial. Rude receptionists are performing unacceptably. Sloppy bookkeepers are performing unacceptably. You must set standards for *your* company, know if they're not being met, and immediately communicate the problem.

John was a wonderful illustration of this point.

2. Assess the trend. New hires have varying learning curves. Years ago, I hired our first female press-person. She learned slowly. In fact, I took some macho heat for putting up with such a slow learning curve. But she improved steadily and eventually became a top-notch employee whose production quality was clearly superior to some of the macho-scoffers. The concept of trend assessment simply says,

- This employee is below standard and this level is clearly not acceptable.
- Which way is performance headed?
- How strong are other qualities such as desire, work ethic and willingness to learn?
- Is there a reasonable chance that, by waiting, I'll be rewarded with a quality employee?
- Can I financially afford the wait?

Again, John made assessment easy. He was at one-quarter speed. With my direct involvement, he climbed to maybe half-speed. But his attitude made clear that he was not interested in paying the price necessary to become an acceptable employee.

3. Give clear warnings. Here I get a half-point. John was warned reasonably clearly that his performance was unsatisfactory; but he was not warned in writing. It is important, partly for legal reasons, that warnings be clear and written. UN now has a three-step warning process for most of our "grounds for firing" issues. Another reason for a good employee manual is clear-cut grounds for dismissal. We divide grounds into three categories:

(a) Immediate dismissal (e.g. theft, bodily harm to a fellow employee, willful destruction)

(b) One warning (e.g. out-of-line, but not flagrant, sexual harassment, failure to follow a direct instruction)

(c) Three warnings (e.g. performance related)

4. Build your case and never fire in the heat of the moment. Here my performance was less inspiring. As a clearly flawed 6-hour employee, John was possibly fire-able on the spot, but tomorrow would have been a better day. I could have documented the reasoning, given him a copy of the document and carefully filed my copy. In the modern era, the E is well advised to have excellent documentation for a decision to fire including written proof that the company's "grounds for dismissal" policies were followed and that warnings were clear.

Over the years, our company has fired about 15 employees. It is important to be patient and fair, but firing as necessary is important for three reasons:

Unacceptable performance is simply unacceptable in a profit-making enterprise. The whole idea is effective performance that leads to a profitable operation. In addition to unjustified employee cost, there may be costs in terms of quality, delivery and customer goodwill.

Unacceptable performance harms morale of other employees, including their attitude toward the management system that would tolerate the performance or behavior.

Eventually, poor employees will lower the bar for the entire company, poisoning morale, attitude and performance levels.

There Must be an "OK to Make a Mistake" Atmosphere. If you are a perfectionist, it will drive you crazy when employees make mistakes, especially if the mistakes cost you some serious money and/or customer goodwill. I have made some of my most serious personal performance errors by coming down too hard (sometimes in front of fellow employees) when we've had errors. The long-term problem (besides the possibility of running off good people or getting yourself punched in the nose) is the creation of a bunch of timid souls fearful to make a decision or take a chance because something might go wrong. I have worked hard (if not always successfully) to create a mindset something like this:

We have a business in which we juggle a lot of balls. Any juggler will drop one now and then. When we do, let's take it very seriously in terms of (1) getting the problem fixed quickly and (2) learning from the mistake to avoid a recurrence.

We may have some "one-minute meetings," and may issue a "quality-gram" to achieve company-wide understanding of our plan to avoid recurrence; but the employee who made the error will not be publicly beheaded.

(Of course, if the same employee makes the same error repeatedly, the section prior to this one may become relevant.)

Build Your Culture. Part of the job for Es is establishing a corporate culture that helps assure employee behavior will fit with expectations. This key concept is discussed in Chapter 7.

To Ponder and Discuss

1. Are you a delegator or a hands-on micro-manager? Is your hiring strategy consistent with your personal style?

2. How are your teaching and coaching skills? How does your hiring practice fit with your teaching/coaching skill?

3. Do you have a process for clear communication of expectations for new employees?

4. Are the "grounds for dismissal" clear? Are you willing/able to step up to difficult personnel issues that may involve firing?

5. What is your philosophy toward errors made by employees? How do you communicate and follow up?

6. What is your plan for rewarding excellent employee contribution?

Chapter 5

Order Writing as a Crucial Discipline

Here is one of those topics that should probably be obvious but eludes many businesses. Actually, every relevant issue is learnable in the drive-through at Wendy's or other modernized fast-food operations.

- **Salesmanship:** As you approach the microphone, you see at least one, maybe two full menus. You have an excellent idea of the options available.
- **Order-taking:** The employee inside asks for your order and enters it into the computer system.
- **Order confirmation:** A screen beside your car records the order item by item. This step has obviously been added because Wendy's feels that verbal communication and verification were too loose.

In my first successful business, order writing was not a key function. We told potential members about the Unified Neighbors program. Hopefully they signed up. If so, they were eligible for a set of services that were pre-defined, including a subscription to our magazine. No problems as long as we got their address right.

Then we entered the printing business where there are literally hundreds of potential combinations of finished size, paper grade, paper color, inks front, inks back,

finishing functions and shipping instructions. It is a business where Murphy works overtime, and the order-writing function is crucial. Over the years, we have spent well over $100,000 developing or purchasing computer support for this discipline.

Now I realize that order writing is important in a host of businesses. Although not as common as it once was, you can still order a car built to your personal specifications. Imagine the communication process involved in assuring that your car, as it rolls down one of several assembly lines, has the right combination of paint, sound system and wheel coverings.

Companies like Dell and Gateway allow you to specify your own computer features. Again, imagine the order-writing discipline involved in that production cycle.

And in one way or another, almost every company takes orders and has the opportunity to make a customer happy or unhappy based on whether the order is correctly understood, transmitted and produced.

As I write these words, I can see a funky little 6x6' outbuilding near the lakefront at our cabin. Our 6x6' outbuilding (which looks so much like an outhouse that we're considering adding a half-moon decal) was supposed to be 6x10', like the rusted old metal building it replaced. We're not sure how it wound up being 6x6', but it did.

At our home is a 6' fence surrounding the backyard. My wife and I had debated for several days whether to order a 5' or a 6' fence. We tried to visualize the two in our own backyard. We even drove to nearby homes to compare the difference. Eventually we decided on a 5' fence. The crew came while Janet was away and installed all the

support posts. She arrived in time to mention that those posts looked really tall for a 5’ fence. The work foreman’s face turned ashen; he checked the scribbling on his work order and said, “It says 6-foot here.” Janet said, “I don’t care what it says there; it’s supposed to be 5 feet.” Being kind souls aware of the perils of entrepreneurial life, we allowed the 6’ fence to be installed. Among the settlements: 6’ at the 5’ price and financial adjustment for the fact that the painter (separately contracted) had about 20% more painting to do than he figured.

Several years ago, I fielded a Unified Neighbors consumer complaint from a homeowner whose house had been painted in error. The crew was at the right street number, something like 4044 East XX Street. The problem was that they were supposed to be at 4044 East XY Street. Another complaint involved a wallpaper company that was supposed to strip and re-paper the living room but did the dining room instead.

There are obviously all kinds of ways in all kinds of businesses for things to get all screwed up.

Our latest printing software package includes a feature called the Confirmation Letter. The letter says something like “Here are the specifications of your recent order. Please check to be sure everything is correct.” Included are product specifications, quoted price and scheduled delivery date. If we’re nervous, we can even ask for a signature and return-fax indicating acceptance of the order. This system has already helped avoid a variety of confusion and customer unhappiness. Note that it is the exact equivalent of Wendy’s itemized screen that repeats your order and shows your price.

Some variation of the confirmation letter is important for businesses that are

- complex enough that errors can occur, but
- not complex enough that a formal contract is presented and signed

The confirmation device provides a way to avoid a very delicate customer relations problem. Sometimes people don't say what they meant to say. There is some chance—surely remote, but there's a chance—that the Corbins accidentally told the fence company we wanted a 6' fence. Obviously, they believe we told them we wanted a 6' fence because that's what the order said and that's how tall the installed posts were. This is a classic lose-lose situation. If the company hangs tough, insisting that we ordered the wrong thing, we are unhappy customers who don't have what we want. If they knock down the 6' fence and install a 5', they lose their financial shirts. Ugly! So the confirmation process is saying, "Here's what we think you said you want. Please verify that we've got it right."

An additional benefit is simply the written nature of the communication. Many people are spectacularly poor verbal communicators and/or poor listeners. Written communication can help. *Important note: At the first clue that one of your customer service people struggles with processing verbal communication, find ways to shore up the weakness.*

The bottom line is simply this: If your business includes any possibility of serious errors in the order-writing process, take the time to develop an excellent order entry and confirmation system. Even if your process is

relatively simple, consider a discipline in which the order taker reads back the order as understood.

If There Are Sales People Involved

At the risk of offending thousands, may I delicately say that some sales people are not good processors of detail? If key order specifications are transmitted to and through a sales force, even more care is needed to design a system that assures accuracy and/or finds errors.

Companies such as Dell who are "dealing direct" over the Internet enjoy a variety of advantages, one of which is direct client communication with the production process. Customers, are able to directly transmit their wishes via clearly written e-instruction rather than talk to a sales person who is taking bad notes and will later try to remember everything that was discussed.

At our printing company, in a variety of ways, we are encouraging the customer to be mainstreamed into the production process. Techniques can include creative use of voice mail, email and other Internet capabilities.

Another Benefit: Getting Things Moving

An important additional benefit to good order-writing is more efficient production. In many businesses, the order-writing process creates the need to purchase materials. With a philosophy of "instant order writing," you can generate same-day awareness of the purchasing and inventory requirements. The job will move more quickly into your production scheduling processes, allowing more planning and reaction time.

To Ponder and Discuss

1. Does your business concept include any opportunity for misunderstood orders?

2. If so, what can you do to avoid or discover errors?

3. What are examples of order confirmation? Written? Verbal?

4. Is your order entry system flowing smoothly into production? Is it as timely as production would like? Are there any missing pieces of information?

Chapter 6

Quality Control Company-Wide

As a young employee at General Motors, I did some duty in a quality control department. At that point in life, I thought of QC as a production function: a combination of sampling techniques and quality measurements which assured that a batch of incoming raw materials or outgoing finished goods were "within tolerance."

A later General Motors experience helped me broaden my definition. I was working in the marketing department and was on the traveling team taking a product show to another city. About four hours before show time, my boss asked me to come with him for his pre-check. All our support people were there. He scoured the auditorium like a Scotland Yard investigator, checking every microphone, projector, connecting wire and speaker. He demanded a back-up projector. He pulled the curtains back and forth a few times. He checked every product we were going to show: Was it positioned right? Did every door open and close cleanly? Was lighting right? It was an amazing performance that made a huge impression on me. And, as you would expect, the show went off without a hitch.

Today I have redefined **Quality Control** as similar to my boss's attitude during his show pre-flight: It is the process of figuring out what can go wrong anywhere in the enterprise and trying to be sure it doesn't. **It is a mindset that Murphy (the son of a gun who figured out that**

anything that can go wrong will) is your mortal enemy; that he can strike anywhere at any time; and that a key part of your job is being sure he doesn't succeed.

The previous chapter is a classic example. Things can go very wrong in the process of understanding and communicating the customer's order. The confirmation letter is a classic quality control step to avoid problems.

Does your company have a filing system? Of course. Can things be misfiled? Of course. What steps can we take to assure no misfiles? Is the downside risk of a lost file high enough that we should consider a duplicate system? If not a complete duplicate system, how about a database that tracks all movement of the file?

When it is time to tally up how much the customer owes, is there any chance of an error? Might information be missing or incomplete? Is the risk high enough to justify a check and recheck system?

When we physically prepare invoices, is there any chance of error? Should there be some kind of invoice accuracy audit before they are mailed?

When we purchase from vendors, is there any chance of expensive errors: buying too much, paying too much? Does the risk justify a checking and approval system?

What can go wrong in the production process? How can we quickly determine that we have a problem—hopefully before production is too far along? If there is a production problem, how can we be sure to discover it before the customer receives flawed merchandise or service?

Should the customer be directly involved in any of the inspection processes? If so, how can this be accomplished with minimum inconvenience and minimum disruption to the production process?

Is there any chance of errors in packaging or shipping? What kind of communication or checking can avoid these problems?

Do we have an excellent system of verifying that customers have received their orders? Is our proof of delivery carefully filed?

Does our computer system, especially if we're involved on the Internet have necessary security protection?

Are our administrative functions, such as payroll and timely tax filings, on an assured execution basis? Should there be a formal audit/verification of the execution of these systems?

Many of these functions fall under the current favorite phrase "due diligence," but whatever you call it, it's a mindset: "I will think through everything that can go wrong and try my level best to have systems and procedures that avoid potential problems."

Quality Control as a Safety Net

It is useful to think of QC as separate from the task of planning sound systems and procedures. For example, when we plan our payroll system, we will make every effort to create a tight system that works perfectly. But after striving for perfection, we will say, "Since humans aren't perfect and Murphy occasionally strikes, what checking systems will uncover the potential errors?" Many Es work

hard on procedures but are "too busy" to develop the safety net. This is dangerous!

And When Things Do Go Wrong?

Despite our best efforts, Murphy occasionally scores. Again, mindset is the key. Once the short-term impact of the problem has been dealt with and emotions such as angst or fury have dissipated, we must ask, "How did this happen, and what can we do to make sure it never happens again?" Build a corporate culture that will tolerate one error but hates two of the same kind.

A later chapter talks about the "Power of Procedures," meaning written procedures. To the extent possible, commit your quality control steps to writing and make those procedures available to every employee (need-to-know basis, of course).

Be Aware of Possible Dishonesty

Let's end this chapter on a bit of a negative note. Your quality control thinking should consider the possibility of dishonesty among employees, customers or vendors. Now let's be even more negative. You should consider this possibility even among those you consider trustworthy. A recent news item from central Indiana told the story of a trusted financial officer who skimmed hundreds of thousands from a family air conditioning business. Sadly, this kind of breach of trust occurs fairly often, usually because of the pressure of financial need, personal or family.

There are many ways to look at (and debate) this subject, so I'll present the Corbin opinion after nearly 30

years in the game. You should consider my position and adapt one that fits your attitude and management style:

Try to avoid paranoia. If you become fixated on the ways people can rob, cheat or steal, you can easily lose focus on the job at hand, and wreck your "fun-quotient."

Worry about meaningful risk only. Employees will likely go home with a pen now and then; maybe make a long distance call or two on your phone; maybe spend far too much time in the restroom or handling personal business. These issues can be annoying and should be dealt with by frank dialog, but they don't rise to the level of "possible dishonesty" we're dealing with in the quality control system. "Frisking for pencils" is rarely consistent with building a solid relationship with your employee team.

Understand and utilize the due diligence philosophy. If you verbally or non-verbally communicate to people, "Be careful, I'm watching you now," you'll likely convey something like, "I really don't trust you." If you announce a whole host of quality control and checking procedures based on the idea that "as owner and CEO, part of my due diligence is ongoing checking of many parts of our operation," the medicine goes down a bit smoother. These might include routine inspection of items being received from vendors; careful check of invoiced amounts vs. your purchase order amount; and various checks of receipts and cash balances. An important example for Es who have delegated check-writing authority is "check-by-check" review of your bank statement that is delivered, unopened, to your office.

Think about each of your procedures, asking, "Is this procedure *tight* or is there a way someone can twist it

for personal gain?" Consider the possibility that two or more might conspire: for example, two employees, or an employee and a vendor. Then tighten procedure as much as possible.

Be extremely aware of any clues of abuse. If the rumor mill indicates some possible wrongdoing or if your own checks seem to indicate a possible problem, become hawklike.

The correct mentality is intelligent caution. We're not trying to become policemen or private eyes—simply prudent business people.

To Ponder and Discuss

1. Why is good quality control a mindset as much as a procedure? Why do we call QC a safety net?

2. What are areas of your business in which things can go wrong? What formal steps are planned to reduce or eliminate errors?

3. Is your customer involved in any way in the quality control process? Should he/she be?

4. What is your approach—both attitude and procedure—when things do go wrong?

5. Have you actively considered the possibility of dishonesty within your business system? Where might it happen? What could people do to take advantage of your procedures?

Chapter 7

Creating Corporate Culture

Discussing corporate culture reminds me of the politician who was being grilled about his definition of pornography: “I can’t exactly define it,” he said, “but I sure know it when I see it.”

If you are in a restaurant where 100% of the service crew is cheerful and helpful, you might possibly be seeing the result of America’s best personnel hiring department. More likely, you are seeing corporate culture in action. Disney—while loved by some and not so loved by others—has done a legendary job of creating corporate culture at the theme parks. The fanatic attention to cleanliness and detail, including the personal appearance and behavior of employees, is clearly the product of the Disney culture.

A few decades ago, the New York Yankees created a dynasty that was partly a result of great athleticism but partly a result of a winner’s culture. Young players reported that “something magical happened” when they first put on the pinstripes. Sports fans can cite similar cultural triumphs—a championship mentality—ranging from the big leagues to amazing high school programs that virtually rule their sport.

It’s also possible to see corporate culture’s darker side. If somehow management has lost control of issues of personal appearance, customer courtesy, or facility

cleanliness, the cultural norm can reach gruesomely low levels.

The current attempt to shape "a kinder, gentler Internal Revenue Service" is an effort to reshape an entire culture based on a different view of the IRS-taxpayer relationship.

Your company will have, or already has, a corporate culture. It is a basic belief structure, a company self-concept:

- What we stand for;
- What we're good at;
- What we're not so good at;
- What we're trying to accomplish;
- How we behave toward customers, vendors and each other;
- What will and won't be tolerated by our management and our peer system.

A positive culture is an immensely helpful tool in day-to-day operation. A negative culture will be a problem and may become a death rattle.

Let's look at the evolution of the UN corporate culture, not because it's necessarily right for you, but because its evolution will be instructive.

As discussed, UN's customer service philosophy is built around excellent service to our valued clients. Over the years, we grew to believe this concept was the cornerstone of success. For example, we did not develop a traditional field sales force based on the belief that our valued clients would generate word-of-mouth advertising adequate to support our growth. Through time, this concept

of customer service became the central element in our corporate culture. The latest version of our employee handbook includes (page 1) the clear statement that "By philosophy, UN will meet the real needs of our valued clients if it is physically possible to do so." It further makes clear that any employee who cannot buy into this service commitment should find employment elsewhere.

Here's an illustration of the importance of corporate culture. I was chatting with the owner of another company. "What do you do," he asked, "when you need to get some work out, it's gonna take some overtime, but your employees refuse to stay late enough to get the job done?" I told him, without exaggeration, that I couldn't even relate to the question. Our employees understand our client philosophy and understand that making it come true may involve late hours. This doesn't mean everyone loves every minute of it. We try hard to accommodate personal needs and schedules, but somehow, by creative scheduling or whatever it takes, we get the jobs out.

We also decided, years ago, that honesty was a good policy. We step up to errors, make adjustments, rerun jobs, return checks if someone pays us twice…whatever it takes to be viewed as an impeccably honest business partner for our valued clients. This concept has become cultural and is a guiding principle in every part of the operation.

We have imbued, partly by our quarterly bonus system but mostly through the example of our key people, a strong work ethic. This ethic is cultural and is a very positive influence on new employees as they come on board.

Since this book is about entrepreneurial leadership, I should mention my own role in all of this. The E must set the example. The concept of dedicated customer service, for example, must be believed and lived by the E. To this day, I will personally answer the phone at our reception desk. I will deliver proofs or finished jobs if, for whatever reason, my action is important to satisfying a valued client. I have tried to set a standard for personal integrity consistent with our corporate culture. I work hard when hard work is necessary. The E's culture is a result of the E's leadership.

It is also important to understand that shaping your culture, even a primarily positive culture, may have some downside. You'll note that the above discussion of our culture did not include the word *profit*. It became my belief that "if we provide excellent customer service, we'll generate good revenue and earn good profit." This was much more true in our early days as a quick printer, much less true in the rough-and-tumble, low-margin world of commercial printing. Further, we tended to say, "Do whatever it takes to make the customer happy." This might include paying for overnight delivery of paper, hiring a bevy of "temps," or incurring substantial overtime to meet a deadline.

Almost as bad culturally was our primary yardstick of progress: sales volume. This habit began when our information system was so weak that we only developed P&Ls annually(!) so we judged progress by our monthly sales volume. Regrettably, there is no necessary correlation between increased revenue and increased profitability, so our corporate focus was clearly wrong.

At this point, a variety of initiatives are underway to build profit thinking into our culture. But it takes time to establish culture and it sure takes time to change it.

In hindsight, I would have worked harder earlier to build fundamental cost control into the culture—things as simple as conserving electricity and office supplies and as complex as greater control over big expense items such as paper. I would have generated a monthly P&L far earlier in our history and included the employee team in the process of analysis and improvement. The over-riding goal of excellent customer service could have been maintained while still developing higher corporate awareness of profit issues. A good illustration is hiring temporary help. If a management team believes that the real basis of reward and praise is getting all work out on time, they will tend to over-hire temps "just to be safe." If the profit issue is better balanced, there will be more consideration of the cost-side of temp decisions.

An entrepreneurial triumph for the Corbin family was *The Highflyer*, run (very independently) for nearly 14 years by wife Janet. *The Highflyer* was also a triumph of woman ownership of a business staffed entirely by women. The culture, as it emerged, was extremely customer oriented and generated a remarkable number of long-term client relationships. The internal operation was very team oriented with a high cooperation ethic and a strong flexibility ethic that accommodated lifestyle demands of individual employees. Quality standards were extremely high in terms of product, sales presentation, even office environment. Procedures were based on extremely high ethical standards. The learning curve for development of

this culture was something like five years. But the result was a solid, successful small business that was eventually sold very profitably to a large corporation.

Your business may have entirely different cultural issues, but the concept and the shaping process are the same:

- Start with an articulated business strategy and customer service philosophy.
- Envision the daily business environment most conducive to fulfilling your strategy.
- By example, training, disciplining—whatever it takes—shape the daily operating environment in the direction of your vision.
- And fight furiously against negative cultural influences, usually introduced by one or more employees; a mini-list might be
  —A goof-off attitude, whether sloppy performance or poor production
  —Poor housekeeping
  —Selfish or otherwise non-customer-oriented attitudes
  —Too much play-time on company computers
  —Too much interest in socializing on the job
  —Potentially "out of the comfort zone" sex-oriented dialog
  —Too much hard partying off-hours (although we know we can't directly control it, our employee manual makes clear that we expect employees to show up "rested and ready to work")
  —Poor inter-employee cooperation and communication

—Creeping dishonesty: falsifying time or production records, hiding shoddy work, etc.

Let's use a specific example of the E shaping a positive culture and battling a negative one. For most businesses, it is important that we present a "united front," so customers see us as a team dedicated to providing excellent customer service. We should introduce informal rules such as **"never argue with a fellow employee within hearing range of a customer"** and **"never blame a problem on another employee."** So, as an alert E, you are prowling the empire, seeing how things are going. You hear Marty, a sales clerk, say to a customer, "I can't believe that! I *told* John (your bouquet assembler) you wanted red roses, not white." (And if Murphy has been winning lately, you might hear Marty add, "That's the third time this week he's made a mistake like that!")

At the first possible moment, using one of the key concepts of the "One-Minute Manager," you meet with the offending employee. In my opinion, meeting #1 is not with John, although you'll likely want to chat with him as well. You say "Marty, I'm going to check what's happening with John, but first you and I must have a meeting of the minds. In the eyes of our customers, Floral Florists is a team. When something goes wrong, it was a team effort. I never want to hear an individual employee blamed for problems. We'll get together later to figure out how to improve our performance, but we won't blame each other in front of customers. Here's a much better way to have handled this: 'I'm terribly sorry there was a mix-up. We'll take care of it as quickly as possible, and I'll report the error to our

quality control team so we can try to avoid anything like this in the future'."

Then, because culture must be based on action and not words, we **do** investigate what happened; we do try to improve quality control; and we let everyone know we are deadly serious about both the quality and customer service aspects of this kind of situation.

Shaping Culture in Areas of "E-Weakness"

Sometimes we Es must rely on a bit of "do as I say, not as I do," and it can be a problem. As one example: Over the years, I have maintained a notoriously cluttered office. When I was working directly with the production team, I had some predictable difficulty inspiring them to maintain a highly organized work area. Of course, I explained that my workstation requirements are different from theirs, but serious progress came when I could afford a highly organized production manager who built basic housekeeping into our culture. Today our plant is virtually tour-ready at all times, but the credit is his not mine.

A related difficulty can be instilling cultural operational discipline. A "big picture," idea-oriented E may not enjoy the process of developing procedures and emphasizing execution. But it must be done. When operational discipline becomes cultural, an important mountain has been climbed. A sloppy organization will provide ongoing headaches and occasional terror.

To Ponder and Discuss

1. Does the concept of corporate culture make sense? What are examples you've observed of positive corporate culture in action? Negative?

2. If you could pick just three things that would be instilled in your corporate culture, what would they be?

3. Are you taking active steps to envision and develop corporate culture?

4. How can the poor habits or values of the E negatively impact corporate culture?

5. Why is instilling corporate culture, especially a commitment to operational discipline, an ongoing daily process?

Chapter 8

Building Infrastructure

A brand new E who had worked for a giant company helped explain infrastructure with this comment: “Infrastructure is what GE has a ton of and I ain’t got none of.” At the time, my friend was working in a tiny office, had about 2,000 square feet of production space, an employee crew of four, and was serving as president, marketing director, CFO, COO, HR manager, facilities manager and part-time janitor.

Let’s illustrate infrastructure by a baby example. Our new E is sitting in his 10x10’ office making grand plans for worldwide expansion. He hears an unnerving bang outside his office and learns that the air conditioning unit—crucial to temperature and humidity control in the production area—has crashed again. So our E finds his Rolodex cards, calls the repair company and arranges their visit. As he’s going through the process, aware that the flow of strategic genius has been badly disrupted by his return to facilities management, he says to himself, “I’ll bet my production guy Ralph could handle this problem just fine in the future.” He writes a baby procedure, staples the Rolodex card to the procedure, and his first piece of infrastructure is created. As a business grows, the infrastructure must become more sophisticated, but the entire idea is wrapped up in Ralph and the Rolodex card.

As another example, let’s look at hiring. For many early-stage Es, hiring is a genuine hassle. Just the process

of getting a decent ad in the Sunday newspaper involves an adventure into the unknown or at least the forgotten. What to say…who to call…what the deadline is. So one day, after struggling through the process again, our E says, "I'm going to get this mess organized so I know what I'm doing." She writes eight different "template ads" for the different needs that may come up. She generates a fax form that includes all relevant newspaper information. She puts it all in a folder called HIRING; and some baby infrastructure is born. Later, hopefully, there will be a skilled employee handling the whole process. It will be highly organized, highly streamlined. Hiring will be like clockwork. In the meantime, baby infrastructure is better than no infrastructure at all.

Payroll involves an immediate, pressing need for infrastructure. I personally handled all corporate payroll functions for many years and one glorious day handed it off to a trusted administrative employee. We later handed the whole thing off to an outside payroll service. Today, because of excellent infrastructure, payroll for 40 is far less hassle than it was when we had five employees.

Procedures for timely tax deposits are another "get ready right now" for every E. Again, I handled the function for far too long, occasionally getting one of those nightmarish IRS notices that my 1988 withholding records didn't match the corresponding social security reconciliation. ARGH! It's now 1995; my files for 1988 weren't all that great then. Where they are now is anybody's guess. Our decision to use a professional payroll service was based partly on that kind of possibility, but mostly on the theory that our infrastructure was much

sounder in the hands of professionals who have time to study all the emerging tax requirements.

Note that our infrastructure examples are not mainstream production or selling functions. Infrastructure is a “support” concept—something like the job of supporting an army during wartime. The general in charge of battlefront operations (that’s you, E!) is too busy to worry about the timely arrival of food, water, rations, ammunition and gas for the tanks. But they darn sure better arrive. The support system must (1) deliver what we need while (2) involving as little distraction as possible from our primary job, which is winning the war.

Here is the surest clue that you need to beef up infrastructure. If an event happens repetitively and each time it happens you say, “Oh, no, here we go again. This is a giant hassle just like it was last time,” then you need improved infrastructure. Here are some examples (presented as a checklist for whatever it may be worth):

[ ] A customer contacts you and asks for information about the company. Is there a quick, well-understood system for getting information out quickly?
[ ] A customer requests a quote. Does the infrastructure support prompt quotations?
[ ] Are the quotations clear enough to support intelligent conversation with the customer in a few weeks or months?
[ ] Are the quotations filed well enough that you can find them when needed?
[ ] If “quote follow-up” is an important marketing function, is it executed on a timely, well-understood basis?

[ ] If you are utilizing the Internet, is there a well-defined "webmaster" function that handles problems and directs inquiries or orders?

[ ] Have you set up excellent back-up protocols for all computer applications?

[ ] Are they being faithfully executed?

[ ] Is the process of advertising for job openings streamlined?

[ ] You receive response to your employment ad. Is the process of setting up interviews and evaluating employees clear and consistently implemented?

[ ] A new employee comes on board. Is the orientation process clear, concise and well organized, including necessary forms for payroll?

[ ] Is the training process clear?

[ ] Do you have well-organized employee files? Is there timely documentation of evaluation? If there have been employment problems, are they well documented and carefully filed?

[ ] Is your insurance coverage (including workman's compensation, if applicable) current, and is it reviewed regularly?

[ ] If some or all of your receipts come in cash, is your system "tight" in assuring safe deposit of collected monies?

[ ] If you receive credit card money, is your deposit system tight? Are your safeguards for client information adequate?

[ ] When it's time to generate invoices, does a smooth procedure handle the process?

[ ] Does your receivables system operate smoothly and yield crucial information about money owed you?

[ ] Is there a well-organized procedure for chasing overdue balances? Perhaps a first, second, third letter system followed by potential legal action?

[ ] Does your order-entry system generate

    [ ] An organized production schedule
    [ ] Timely purchase of needed material
    [ ] Timely scheduling of personnel and/or facilities/equipment?

[ ] Is the system for tracking need and ordering basic items such as office supplies and cleaning products well executed?

[ ] Are janitorial functions well organized?

[ ] Is your inventory under control with appropriate safeguards against misappropriation?

[ ] If a delivery is made at your business, do you have an organized receiving function that assures the delivery is logged and gets in the hands of the right people?

[ ] If you need to make a shipment, is the shipping procedure smooth and well organized?

[ ] Is your purchasing system well organized with clear limits on authority, sound documentation and a solid link to your payables system?

[ ] Does your payable system assure you pay on a timely basis? Does it have safeguards against overpaying or paying unauthorized invoices (probably a policy of "will pay only with valid purchase order number")?

[ ] Do your payroll system and related tax deposit systems work like clockwork?

[ ] Is your benefits package—whether 401k, medical or other benefit—extremely well executed?
[ ] If you collect sales tax, are your records thorough and carefully filed?
[ ] Is your filing system, whether electronic or paper, well organized and diligently executed?

Looked at all at once, this list can seem overwhelming, but you tend to get there one piece at a time. The key is diligent pursuit of a strong infrastructure. Here is an approach to prioritizing development:

- Tackle those issues with pressing legal ramifications first. These tend to be matters of payroll and taxes.
- Tackle the issues that safeguard your money next. This is likely your purchasing, inventory control, payable systems; your collection and deposit of funds; and your tracking of money owed you.
- Then tackle the issues that divert excess amounts of your time. In most cases, the E should be concentrating on product and/or marketing. If the business is soundly based, time freed up from infrastructure tasks should translate to either improved revenue or improved production.

Your Personal Infrastructure

As discussed in the time management chapter, you need an excellent personal system for keeping track of projects, appointments, tasks, projects and miscellaneous information. If correspondence is important and you aren't

handling it personally, is there a smooth system for timely execution? If you must get key information to your organization, is the process smooth and timely? Is your personal and corporate decision-making process orderly and effective (covered in a separate chapter)?

Take the time to develop excellent personal infrastructure. Explore the power of today's computer software. Our organization is now fully connected via intranet and Internet. We are using Microsoft Outlook for personal organization and have developed a variety of Internet related communication devices for clients.

The ability of software like Outlook to organize appointments, tasks and projects is remarkable. (It may take some formal training to dig deep enough to make full use.) If you are outside the office for considerable periods, excellent communication links to the office are also important.

This technology is now so affordable and so powerful that Es who don't fully utilize it are ignoring a powerful competitive tool.

At the same time, it is important to be able to keep track of "stuff." The world still uses a lot of paper and you need ways to file and retrieve important hard-copy material.

To Ponder and Discuss

1. How is infrastructure different from "doing business"?

2. List (using this chapter's checklist if helpful) the crucial elements of infrastructure for your business concept.

3. Beside each item listed in #2, note your personal skill level (A,B,C,D,F) and your company's rating in handling the issue (A,B,C,D,F).

4. Are you well organized personally, including calendar, excellent "to do lists," and project organization systems?

Chapter 9

The Power of Policy and Procedure

Policy and Procedure are similar to infrastructure development, but there is a useful distinction.

Infrastructure is a support concept. (Recall the comparison to an army at war.) Infrastructure involves designing systems and procedures that support the ongoing conduct of business: things like hiring, training, purchasing, billing and collection.

A sound **policy and procedure** system (hereafter P&P) is a decision-making discipline. Primary goals are

- Avoiding repetitive decision making on the same issue
- Making clear where the company stands on important and/or repetitive issues
- Assuring company-wide knowledge of the P&P issue and decision
- Assuring uniform execution through time and across all employees involved

Although this chapter tends to lump P&Ps, the difference is relevant. A **policy** is a standing rule or guideline. A new employee asks, "How many days do I get off at Christmas time?" Your policy manual gives a firm answer. **Procedure** is an operational guideline: how we do things… step 1, 2, 3, etc. Many years ago, we ran into the same wall twice in a couple weeks. We delivered relatively

large orders to clients. Several cartons were delivered, and in both cases we were sure that full ordered count had been delivered. But the customer said, “I only got eight cartons, not 10.” We developed the procedure that “The packing slip will clearly show both final quantity *and* the number of delivered cartons. Each carton will be numbered 1 of 10, 2 of 10, etc. The client will be required to sign a copy of the packing slip that will be carefully filed and kept for at least one year.”

Many Es first encounter the need for P&P as a price list issue. We may have a good idea of prices for our primary products, but if the customer is interested in something special, we may be setting prices on the fly. If the customer senses uncertainty, a scene similar to bargaining at a Jamaican flea market may unfold. If our pricing system is fully detailed, we don’t need to re-decide what we’ll charge. There is also magic to a firm price list. It somehow signals to the customer that we’re a no-haggle business.

As soon as the employee count reaches one, there will be need for a host of employee policies:

- Vacation (how much, how soon, by the day/half-day/hour?)
- Sick day allowances
- Personal days
- Time allowance for death in the family
- How flexible are working hours
- Maternity or medical leave

As soon as the employee team reaches two, you will likely need P&Ps related to employee interaction. We've already talked about the concept of "professional cordiality" as a formal policy. Here's a less complex example faced early in my E career.

We had maybe five employees. We had allowed—by default vs. formal policy—employees to listen to radios during working hours. One day an employee said to me, "Barney's radio is driving me crazy. His choice of music stinks, and I can't concentrate." I knew that Barney was a fanatic music lover, so quickly sensed mini-crisis. I also realized that the situation called for a policy because General Corbin was too busy fighting the war to personally mediate every disputed radio channel selection. So I used the following reasoning:

- An employee has no inherent right to listen to the radio. We are here to build a business, not study emerging trends in music.
- But if an employee can do the job while listening to the radio, we've allowed it in the past and may not need to prevent it in the future.
- Clearly, though, if one person's radio harms the productivity of another person, that is unacceptable.

So we developed this policy: "Any employee can listen to the radio station of his/her choice, but any other employee can require that the volume be reduced or that the radio be turned off."

I don't know if it was the most brilliant answer to the question. I'm not even sure it's right to allow radio use

in the first place. But a policy was generated that dealt with the issue. I didn't have to deal with it anymore and could get back to the battlefront.

Another oft-faced example is dress code. American business has been trending toward casual for many years, so we old fuddy-duddies who grew up with formal business attire have been forced to adjust. But what if your customer service representatives are attired so informally that customers are turned off (or excessively turned on) by wardrobe selection? Boldly stepping up to this issue a few years ago (after deciding that a certain CSR's midriff, while attractive, was not helping clients concentrate on printing projects), we declared, "The company reserves the right to set reasonable dress codes for employees who interact with clients."

As you grow, the donation-seeking world will increasingly find you. It is mightily helpful to have an articulated procedure for donation requests rather than feel the personal need to annually weigh the relative merits of American Cancer vs. American Heart. Your phone answerer can learn to say, "All donation requests must be submitted in writing. We have a committee that meets monthly to consider requests. We greatly respect the work of organizations like yours, and we'll get back with an answer by the tenth of next month."

In my experience, the majority of P&P issues relate to employees. Therefore, even if Volume 1, Number 1 is a little rough, an employee manual is a huge help. You can clarify

- Expectations
- Work rules
- Benefits
- Evaluation process
- Reprimand, warning, dismissal process
- Employee grievance procedure
- Sexual harassment stance
- Open door policy (etc.)

It is likely best to issue your employee manual as a loose-leaf binder so additions and corrections can be made without full reprints. It is also important to secure and file a written confirmation that the employee received and has read the manual.

You can include a "Policies and Procedures" tab in the manual as a storage spot for the written P&Ps you distribute.

The second (maybe first) most common P&P generator will likely be your customer base. Here are examples:

- Will you extend credit?
- How will you decide whether and how much credit to extend?
- How do you handle overdue accounts?
- What if a customer bounces a check on you?
- Will you give any kind of favored status based on sales volume or other issues?
  —Price
  —Scheduling priority
  —Exclusivity by product or geography

The Janet Corbin–run *Highflyer* business developed an excellent set of customer policies that were central to marketplace respect and success. Among them—

- We will not discount our pricing (almost unheard of in the advertising sales business).
- We will not discuss one account's advertising plans with another account.
- We will sell our favored ad locations (inside front, outside back, etc.) by a drawing held in September for the following year. Clients reserving space will be liable for one-half the cost of the ad if they later decide to cancel.
- We will prioritize other "location requests" based on client sales revenue.

As with infrastructure building, the most certain clue you need a P&P is repetition of the same issue on your decision-making list. As an example, let's say an employee asks you, "Boss, what are we gonna do? Mrs. Jones is interested in buying a widget, but she can't get to the store until 6:30 (a half-hour after closing). Should we wait for her?" You recall that just last week, Mr. Smith couldn't get to the store until 6:30 either. On that occasion, you said "no problem" because you were planning to work late on paperwork. Tonight you have an important engagement. A reasonable E thought process might go like this:

- The fact that I'm deciding this basic issue again suggests the need for a policy. What are the pros and cons?
- If we say "we'll stay late," we keep the customer happy and make a sale. It is clearly the customer-oriented thing to do.
- There is an offsetting cost. I'll need to pay someone overtime to wait.
- There is a precedent question. If we do this often enough, people going by the shop may note we're open. We may create an unintended extension of business hours.
- What is the competitive climate? Would my key competitors stay open to satisfy an individual customer?
- Do I want a global policy or should the yes/no decision relate to importance of the individual client?

After considering these issues, you generate a policy that will hopefully guide future decision making.

One E friend simply says, "My second decision on the same question is policy. I write it up and distribute it. I may modify it later, but I'm not going to keep deciding the same thing over and over." Another illustration of **ready-fire-aim.**

The highest purpose of P&Ps is support of the company's strategic objectives. J.C. Penney's "customer is always right" policy is a classic example. The *Highflyer* policies helped create a marketplace image that was central to business success.

We mentioned the question of **precedent** in our late-hours example. It is important for the E to understand precedent and its potential role. A working definition of precedent is this: the assumption that, because we did something previously, we'll do the same thing again. Companies and individual employees need a framework for decision making. If we've done a good job of spelling out P&Ps, they become our decision-making framework. If we haven't P&P'd well, precedent will replace policy. You'll ask an employee (who just made a decision you think is pretty wobbly), "Why did you handle it that way?" And you'll hear something like, "Well, that's what Mary did last week."

Precedent isn't necessarily good or bad, but it is much looser than P&P, tending to involve memory and interpretation rather than written guidelines.

Here's another sign that you should head to the word processor and crank up the P&P machine: You ask an employee, "Why did you handle it that way?" And you hear, "Gosh, boss, I didn't know what to do so I thought, 'what would you have done in the same situation?' So I handled it the way I thought you would have." I suppose that "the way I thought you would have handled it" is better than no guideline at all. But far better is written policy and procedure that guides decision making and action.

Finally a great caution. As you build P&P, you are trying to arm employees with decision-making guidelines. Some employees view P&Ps as weapons with which to guard the castle gate. It is important to discuss both

- Attitude—the tone and words used to explain policy (making a customer feel like a suspected felon is a good example)
- Common sense

As an example that occurs in our business, we have a policy that our mailing division will not deliver a bulk mailing to the post office unless the client has prepaid the postage. Exceptions must be personally approved by Bill Corbin. Bill Corbin is on vacation. One of our best clients ($190,000 annual sales volume) has planned a mailing to support a weekend sale. Mailing is targeted for a Tuesday drop. It's now Tuesday. Postage amount is $1,200. The client calls my CSR and says, "Man, our accountant left early today for dental surgery, so I can't get a check until tomorrow morning. Can you cover me today so we can get the mailing out on time?" Some might argue that policy here is clear. The client made a mistake in not securing the postage check on a timely basis. We have every right to hold up the mailing until our clear policy is met. To me, this is a classic collision of policy and common sense. We extend this client net 30 terms on printing projects. Average outstanding balance is likely $15,000. They pay us like clockwork. They'll almost certainly keep the promise of delivering the postage check tomorrow morning. CSR knows all that because he deals with them on a regular basis. I would personally be disappointed if policy defeated common sense and we held up the mailing.

But, teaching common sense is a very difficult matter, and you may not want to allow financial decisions

to be made outside policy. This is the kind of dilemma covered in more detail in book 5: *Entrepreneurial Savvy*.

To Ponder and Discuss

1. What is the difference between policy, procedure and precedent?

2. Is it possible to have too much P&P? Is it possible for employees to have too much enthusiasm in executing P&Ps?

3. In the example above involving the question of whether to stay open late for your customer, what would you decide and why?

4. Where do you stand on the conflict between P&P and common sense?

5. What are key areas in your business strategy that need P&Ps?

Chapter 10

Creating a Decision-Making Process

This chapter begins a series of relatively short "key issues" that the E should consider carefully but handle based on individual style. Decision-making is a classic example. A baby entrepreneurial enterprise usually has a clear-cut decision-making process: (1) someone asks the owner what should be done; (2) the owner decides. Growth usually forces a rethink of this process. Part of the reason is pure math. There are a growing number of issues. Some are simple, but some are complex. Some can be decided immediately, but some will require lengthy fact gathering and analysis. Some have been "articulated" as a decision that must be made, but other important issues remain below the radar screen of formal decision-making. I have had honest exchanges with Es where we confessed to 50 or more (maybe a lot more) "hanging decisions"—issues that need to be addressed but were still open.

Finally, much later in my E career than I like to admit, it hit me that decision-making needs to be far more formalized than I had previously realized. It includes these steps, all crucial:

Define the decision to be made. In many cases, the need for a decision is clear, perhaps even pressing. These decisions should be placed on the "task list" and attacked.

But in most organizations there is a hidden agenda—employee awareness of issues that should be addressed. Unless there is a process to raise issues for decision-making, employees tend to suffer in silence, assuming the E is stupid or indifferent. As a baby example, my company was using a "long" business card box so we could have a single box for either 500-orders or 1000-orders. But a 500-order "rattled" in the box. My packaging people were spending time adding filler. My counter people were embarrassed that a 500-order looked pitifully small in its carton. Someone finally said, "Wouldn't it be better to stock two sizes of boxes?" We had some brief discussion where the argument for change was presented. It made sense, and a change was made. Note that this decision would likely never have been addressed if employees didn't feel empowered to raise issues, initiating the **definition** of a decision to be made. Steps 2, 3 and 4 are

- Analyze objectively.
- Reach a *timely* decision.
- Communicate the decision.

The Right Entrepreneurial Mindset

The basic requirement for issue definition and decision-making is open-minded, objective analysis:

- willingness to consider issues and new ideas…
- followed by a process of gathering the facts necessary to make good decisions, and then
- objectively evaluating those facts

For many Es, this is not a strong area. The reasons are three:

- **Some Es are a bit brash, impatient, opinionated and overconfident.** These qualities can cause new ideas to be squashed and can get in the way of objective analysis. The visual of an entrepreneurial cowboy riding through town shooting (at decisions) with both pistols is relevant for some Es.
- **Good decision-making is hard work.** New issues can feel like a distraction from the job at hand. Good facts are often hard to come by, especially if the management information system isn't all it should be.
- **The press of other activities gets in the way** of careful implementation of the decision-making process.

Despite these challenges, it is important for us Es to implement and execute an effective decision-making process. Here is a mini-framework presented with a case study example:

Formally define the decision to be made. Decision: What provisions of our Acme Electric contract should we change when we renegotiate next week?

Define the deadline by which a decision will be made. We must submit in writing by Friday, July XX, 20YY.

Define any key sub-components of the decision. We must look at (a) price and (b) the present requirement that we deliver in three days. We have experienced raw

material cost increases, and a key vendor has closed its local warehouse.

Define the facts that are necessary for a decision: (a) We'll need present prices and a projection of the vendor's likely prices later in the year; (b) if we have time, we should get prices from competitive vendors; (c) we need to know how aggressively our key competitors are pricing, as they'll be bidding against us; and (d) we need some indication of how solid our relationship is with Acme and whether they'll live with additional delivery time.

Create the steps to reach the decision, with timetable. John will be champion of this decision. He'll gather input and facts through Wednesday and will give us a written proposal by Thursday morning. We'll meet Thursday afternoon at 2:00 to see if all the pieces are there. We'll get additional information if needed by Friday at 11:00 and will reach a final decision then.

Execute relentlessly.

Some decisions are more complex than this. Most are less. But this example illustrates structured analysis and decision-making. Note, too, the critical role of the timetable. Many organizations fail to match their decision-making system with the "window" of decision-making opportunity they face. A fabulous travel decision is useless if the train has already left the station.

Some Es force themselves and their organizations to document in writing the decision-making process and the decision itself. The advantages of this discipline are powerful:

- Forced formal definition of the issue
- Forced development of a framework for analysis along with communication of the time window
- File-able facts and documentation available for future reference
- Written "final decision" available for filing and/or communication to the organization

The availability of intranet and Internet email systems greatly simplifies the process of defining decisions, fact gathering, and documenting and communicating those decisions.

Emotion

A great many E initiatives are motivated by emotion, often anger over collapsed execution or disappointment about poor results. While emotion is a good motivator, it is a lousy decision-companion. In most cases, it is best to await calm before launching the "objective" evaluation and decision-making phases of your process.

Delegation?

However formal the framework, every E must say, "Do I want to make all decisions myself, or do I want to delegate some of the decision-making?" While your author is a delegator by philosophy, it is important to make clear that either approach can be successful. Either approach can also falter or fail.

One issue is very personal. If you have a high control need, have high confidence and skill levels, and correctly assess that your decisions will likely be vastly

better than those made by others in your organization, you will likely want to retain decision-making.

Just as relevant is company strategy and stage in the growth cycle:

If you are just getting started with small staff and limited resources, hands-on decision-making may make great sense. You need to learn your own game. You can't afford a major misstep. Your people probably know less about the game than you do. Hands-on probably makes great sense.

If you are a single location business with relatively few separate operating departments, it is possible to operate as the single key decision-maker.

If your business is multi-geographic and/or multi-departmental, it may be impossible to remain the single decision-maker, forcing a move to delegation.

If your business is growing more complex, you may need specialists to help run various parts. It is often necessary to delegate responsibility and authority to these specialists, especially if you are increasingly clueless about exactly what they're doing.

If it is clear that your business is bogging down in the decision-making process, you may need to delegate simply to move things forward.

If you are ready to step aside from some day-to-day operations, you must have a delegated decision-making system in place.

Note the interaction between this issue and Policies and Procedures. If your orientation is hands-on with maximum control of decision-making, you should make heavy use of P&Ps. J.C. Penney has been dead for decades,

but when his 21st Century shoe department manager in Sioux City wonders, “Should I give this guy a refund on the shoes he’s returning?” the answer is still a clear-cut yes. Many multi-outlet businesses have done outstanding jobs of controlling key decision-making via clear-cut P&Ps and excellent training.

If you believe in delegation, or are forced to it, be aware of these truths:

You must be patient and somewhat kind. Especially during their learning curve period, some of your people will do some amazing things. I had a great personal example several years ago. We had developed a policy of buying a new delivery vehicle whenever we finished paying for the last one. We kept the old one, allowing our fleet to grow and be upgraded. As a new delegator, I told our delivery manager to handle the next vehicle acquisition, working within a cost cap of $X. Out he went, soon returning with a 24’ box truck. The truck was big enough to put us in the household moving business, but our average delivery size at that point was about three cartons. So I took several deep breaths and utilized a leadership concept that is crucial to delegators: “If I delegate, and if my employee makes a good-faith, best-judgment decision, I **must** stand behind the decision.” We can chat about the decision-making process. We can hope to cause future decisions to be made with a bit more analysis, but we must stand behind this one. As an interesting aside, that box truck became a key player as we evolved into full commercial printing and mailing. It took about six years, but my employee now looks like a prophet.

You must be willing to accept financial loss. The learning curve issue will occasionally cost real dollars. You must be philosophically able to view those dollars as training costs that will be recouped as your management team develops.

Even a high-control decision-maker will likely need to develop a hierarchy of decisions and let some low-level decisions go. Here's a clue. You notice that your new office is dangerously low on pens and paperclips. You ask an employee to replenish the inventory while out at lunchtime. If a 15-minute dialog ensues during which you must personally pin down exactly how many paperclips you need and where they should be bought, you likely need to do some infrastructure and delegation work.

Our company has defined these decision levels:

- **Strategic:** reserved for the head E with staff input
- **Company-wide impact** (for example, a key customer policy): same as strategic
- **Departmental impact, low dollar amount:** delegated to department head
- **Departmental impact, high dollar amount:** department head makes recommendation. Staff and E review, make suggestions and OK.
- **Individual employee level, low dollar amount:** delegated to individual
- **Individual level, high dollar amount:** individual recommends with department head review and approval

Of course, you will develop your own hierarchy with your own definitions.

Our company decision-making process addresses two additional problems: (1) if you ram decisions down people's throats, there can be resentment and resistance; but (2) if you attempt decision-making by committee, you can wrangle forever. As suggested in the case study above, each decision is assigned a "champion." Usually the champion is the employee or department head closest to the issue. Often it is the idea-person who thought of a new approach, policy or procedure. The champion's job is to articulate the issue (what are we trying to accomplish or solve?) coordinate the objective analysis phase, then present a recommended decision. Those who have a stake in the decision and/or have knowledge relevant to the decision are then asked to review, critique and suggest. The champion collects all input and formally announces one of three outcomes:

- The idea is adopted "as presented."
- The idea has been withdrawn because, in hindsight, it wasn't so hot.
- The idea has been modified based on input; there is a new recommendation. There is a final chance to suggest or modify at this point.

Depending on the size of the decision, the process may take place during weekly staff meetings or simply via the email system (using the "reply to all" feature).

Note that a good decision-making process can be a powerful competitive tool. If your company learns to make

20 decisions in the time a competitor takes to make five, you have a real competitive advantage. Conversely, if your decisions take too long, you risk “missing the opportunity window” and bogging down your growth.

Your decision-making process should consider two employee issues:

Morale: The high-control E will likely face the behind-the-back gripe that “old iron-________ doesn’t let us decide to go to the bathroom on our own.” This may be heat you’re willing to take, so isn’t necessarily an unacceptable situation. But the current generation of workers is much less oriented to an autocratic management style than previous generations, so it’s important to keep a gauge on the morale impact of your decision-making process.

Authority must match responsibility: There are thousands of variations of this entrepreneurial story. E realizes that the company needs more technical knowledge. Sometimes the need is administrative—areas such as accounting. Sometimes it’s in production as the business’s complexity grows. So E hires an expert, saying, “I totally realize that our company needs you. We’re at the point where I just can’t do it myself. Besides, your skill is greater than mine in the area you’ll head up.” So the expert comes on board, **responsible** for improving various things. E, though, does not release practical **authority** to make the decisions necessary to affect real change. Soon (especially if the E is dumb enough to complain that things aren’t improving as much as she thought they would) there is intense conflict.

To Ponder and Discuss

1. Are you a delegator or a hands-on decision-maker? Does your decision-making system work efficiently in either case?

2. Are your low-level decisions effectively delegated, or are you handling everything?

3. Do you have a formal system to (a) identify an issue as formally requiring a decision; (b) develop an objective evaluation; (c) reach a solution; and (d) articulate and implement that decision?

4. Are there issues of mismatched authority and responsibility in your operation, or might there be if certain plans are adopted?

5. Do you have problems with timely decisions? What are you doing to improve?

Chapter 11

Know the Rules of Your Game

This is a mini-chapter, but it can sure be important in avoiding entrepreneurial shipwreck.

Depending on your business, there are a variety of rules and regulations you **must** know about. Some of them are legal, some merely practical.

There is a great deal of “do-it-yourself” advice regarding steps such as incorporating your business, filing your own copyright and trademark applications, generating your own financial statements, etc.

Without doubt, there are professional who charge too much and give too little. But there is a major risk of error or ignorance regarding key legal requirements. In my experience, it is better to err on the side of safety in organizing your business legally and setting up the elements of infrastructure that deal with legal matters.

Examples of these **legal** issues include

- Paperwork at employee sign-up, including W-4 forms
- Tax withholding and timely deposit
- Federal tax reporting, including income, social security and Medicare
- State income
- Local or county income, if applicable
- State unemployment
- Federal unemployment
- Sales tax within your state

- Sales tax issues as the attempt increases to collect for out-of-state sales
- Property taxes
- Workman's Compensation insurance coverage and correct handling of any Workman's Compensation claims
- OSHA and other safety rules and handling of accidents
- Local, regional or national environmental rules: air, sewage, etc.
- State or federal notification rules, such as minimum wage and equal opportunity posters
- License renewal requirements, such as annual corporate registration
- Archiving requirements, such as length of time to maintain income tax-related records

Examples of **practical** issues include

- Joining key industry associations that provide important data, contacts, etc.
- Attending the industry conventions, expos, etc. at which the future is revealed (sometimes in a small booth on the lower level)
- Understanding the dynamics of any organizations that affect your business: unions, regulatory agencies, political action groups, etc.
- Assuring necessary insurance coverage
- Understanding your labor market, including pay levels and benefits necessary to assure a solid employee team

- Understanding issues of local government that may affect your business; e.g. zoning, highway plans; revisions in the “master plan,” etc.

It is imperative that the E has solid knowledge at start-up *and* remains current. Potential sources of valuable information:

—A start-up attorney truly familiar with small business start-up requirements
—A CPA attuned to small business
—A trade group or entrepreneurial network you can join
—Internet research
—Trade publications as well as local media
—Experts in fields such as safety and pollution

There is a caution here, of course. A whole industry of virtual “terror”-ists exists that extract big dollars for “compliance consulting” (on OSHA, etc.). It is likely wiser to seek out a known local specialist than to respond to the unsolicited sales pitch of these consultants.

The Role of Diplomacy

Another practical issue is associated with the possibility of dealing with folks from OSHA, the IRS or other regulators. Some Es tend to be independent, hardheaded types who rebel against authority, especially if it seems unreasonable. This tendency can inspire us to become defiant or combative when the regulatory folks drop by. This is rarely a sound tactic, so part of the concept of knowing the rules is knowing how to gracefully handle

the reality that we aren't the biggest gorillas in the jungle. In my personal experience, an attitude of cooperation and active interest in full compliance is very helpful. On the other hand, if you are being subjected to out-and-out unfair treatment (an experience I had several years ago related to a property tax dispute), it may be necessary to rise up and fight back.

To Ponder and Discuss

1. What are the key "things to know" about doing business in your industry?

2. What can happen to those who don't understand the industry rules—formal or informal?

3. What are the best methods for learning more about your industry?

4. Can you operate positively with regulators, tax people, etc., even if they are annoying or unreasonable?

Chapter 12

Your Management Information System

A solid management information system (MIS) has a very simple objective. It tells us how we're doing vs. our goals and, if applicable, why there's a variance. It should provide immediate, actionable information.

Interestingly, the worth of an MIS is not a function of the amount of data it provides. There are companies that don't have a clue what's really going on in the marketplace despite being awash in information. Managers can read reports all night and be no smarter in the morning about what steps are called for.

A poor MIS can actually cause a company to steer off the cliff. There are examples, large and small:

Many years ago, Scott Fertilizer developed a financial system that logged revenue when product was shipped to dealers. Their sales team was therefore incentivized to maximize shipments to dealers. But dealers had a complete return privilege and didn't have to pay for product until it was sold at retail. So, the MIS system was showing fabulous sales growth. Production was churning out tons of fertilizer. Everyone was delighted until the controller pointed out that the company was in danger of going broke because there was no corresponding cash flow. A good MIS would have included a measure of dealer inventory. That single number, as it rose, would have

indicated that Scott's shipments were not filling consumer demand but rather clogging an already full inventory pipeline.

As confessed earlier, my early business did not generate monthly or even quarterly P&L numbers. We utilized sales revenue as our key measure of progress. This gauge inspired us to keep our plant very full, even at discounted prices, so monthly sales numbers would meet expectations. We learned—the hard way—that profit does not necessarily follow sales growth.

Let's look at the elements of a good MIS:

Consistent with our strategy. The MIS should be developed based on the real strategic goals of the business. It should be scrutinized for flaws, such as those discussed above. Is there any way that important truth can "hide in the numbers"?

Includes goals/objectives. Unless we've set specific objectives, our performance data have nothing to be compared with. At a minimum, we need (probably by month, maybe shorter):

—objectives for revenue by key revenue category
—costs for all key chart of accounts (a working budget)
—inventory levels
—projected profits
—costs and results of key initiatives, such as marketing campaigns, new product development; new equipment installation, etc.
—whatever else is important to your progress

Timely information that matches the key objectives. Operative words are *timely* and *matches*. To receive P&L data annually is an MIS disaster. It's too late to operate. To receive volumes of data but no answers to key questions is equally bad.

Let's look at another real-life example. Restaurant and retail chains use an MIS measure called *same-store sales comparison*. It is a measure of the revenue generated in *this period* by stores that were also *operating in the comparison period.* One goal of this MIS category is to uncover a potential strategic disaster. Let's say we're a trendy restaurant that enjoys great reception in each new city we enter. We've lined up expansion money for a rollout of 200 stores in five years. When we look at overall year-to-year revenue growth, it's fabulous. But is it possible that revenue growth just looks explosive because of 40 new stores a year? What is going on in the stores already in operation? Hmmm, bummer. First-year revenue is great, second year tails off by 12%, third year by 30%. We have a rapidly growing turkey here, a business that will croak within a few years of the 200-store rollout. With this information, we redirect some resources to existing stores, searching for keys to establish more consumer loyalty.

Most small businesses have multiple revenue categories—perhaps types of customers or categories of products. Typically, some categories are more profitable than others. It is **key information** to spot, early, a trend in which revenue is shifting from high profit to low profit categories.

Similarly, most companies have cost categories that are a major component of overall costs. These categories

must be monitored closely. If there is a significant unfavorable movement, flagged by your timely MIS, you must act swiftly to regain control of the cost component or consider a price increase to cover it.

Many Es are constantly introducing new initiatives. It is important to set specific goals and to monitor results. Hopefully this will verify the soundness of the move. Perhaps it will show that the idea wasn't so great and will lead to an early rather than a belated pulling of the plug.

A key MIS concept should be **trend.** In various ways, it is not as important where we *are* as where we're *headed*. The E world has companies delighted that they lost $50,000 this year. Why? Because they lost $100,000 last year and have taken aggressive corrective action that is working. A good MIS understands the importance of trend analysis and provides data that shows results over multiple time periods.

In today's business world, there is very good MIS news. Excellent computerized accounting and analysis packages are available at affordable prices. Many Es (this one included) tend to become so immersed in running the business that we fail to plan and use this key tool, which is the approximate equivalent of taking a trip in a powerful automobile but having no roadmap and no clue as to our whereabouts.

To Ponder and Discuss:

1. What are the key ingredients of a good MIS for your concept?

2. Where do you stand in building it?

3. What are the main subcategories within your business? Products, client-types, costs?

4. Why can trends be more important than "where things stand"? What are examples?

Chapter 13

A Vendor Philosophy

Most business ideas involve vendors: providers of the material and services necessary to operate your company. There are basically two ways to view your vendor selections: **price-based** or **service-based.**

Price-Based: The main selection criterion is price. Sometimes the E does a comparison price study that establishes a relationship for a fixed period of time: month, quarter, year. Sometimes the E shops every significant project, asking vendors to submit competitive bids. In any case, the mentality is “vendor selection based on competitive bid.”

Service-Based: The selection criterion is overall value supplied including a combination of price, prompt service, technical expertise, and perhaps special programs such as business analysis reports, computerized order entry, etc. Service-based relationships, somewhat by definition, tend to be established for longer periods of time.

There are reasons price-based selection may be correct. If your company is in a highly price-sensitive field and/or your vendors are providing basic commodities, it may be necessary to select vendors essentially on price. If a vendor you thought was service-based turns out to be slipping in service and inching up in price, you may want to re-assess, perhaps even changing to a price-based selection. If it is absolutely critical that you improve your bottom line

quickly, priced-based vending may be a step that can generate quick results.

Service-based vending offers three primary advantages:

- You gain the additional value provided by your vendor's service menu.
- You probably gain some leverage. By concentrating your purchases and being a regular customer, you may become important enough to the vendor to justify extra help when you're in a jam or other goodies reserved for the vendor's valued clients.
- You remove the need to continuously price shop, allowing that time to be reallocated to more productive activity.

Even long-time service-based vendor relationships should be reviewed regularly, perhaps annually. Is the price reasonable vs. competitive offering? Is the value I'm paying for really worth any difference vs. competitors? Has my relationship with this vendor become stronger or weaker?

As a personal philosophy, I have tended toward service-based relationships, primarily for the leverage value. Our printing company is not a giant in our region, but by concentrating our purchasing, we are reasonably important to our key vendors. We are able to secure excellent service and other support that, to me, is worth a percentage point or two. Our scheduling system utilizes the "just in time" concept for much of our paper and ink purchasing. In our pre-press department, the complexity of computer systems cries out for knowledgeable vendors who

can help us keep the system fully operational. Again, this expertise is worth some percentage points in the cost of hardware and software.

We have grown to view key vendors as virtual team members—another part of the infrastructure that allows us to do our job well. We also don't hesitate to have "frank dialog" when these team members don't perform to the standard we have mutually set. Again, leverage is the key to having this kind of dialog.

Although we don't usually think of bankers and financiers as vendors, they clearly provide a commodity as important as the raw material we build into our products. Our company has made it a policy to nurture our relationships in the financial world. With our periodic financial reports, we include a narrative similar to a large company's financial report to shareholders. We are frank about the problems we're facing and outline the steps we're taking to deal with any negatives. Bankers and financiers, like Wall Street analysts, are very unhappy when "expectations aren't met." We work hard to communicate reasonable expectations then to surprise on the high side.

In the early E years, it may be impossible to be choosy about financing sources. Money is badly needed, and the lack of track record can make it hard to come by. As soon as that pressure eases, it is advisable to seek "compatible" sources of funding. For example, there are definitely banks more attuned to small enterprise than others. The E world is full of sad stories around the theme "We had a couple bad quarters, and they pulled our line of credit. Those miserable +#$%#$s!" Financial sources familiar with the E world are far more likely to understand

that there are good quarters and bad quarters; hence are much less likely to be quick on the trigger finger.

There are many good reasons for the E to become involved in groups, associations, etc. where it is possible to interact with fellow Es. Trading notes on financial sources is one very good reason.

Note there can be a subtle financing issue related to your vendor selections. Let’s say things have headed south a bit. Your cash is tight, and you’re falling behind your normal vendor payment schedule. If you have established sound long-term vendor relationships, it is much easier to negotiate some temporary relief. During our 1996 consolidation, cash got very tight. We were paying three key vendors an average of $90,000 per month. We secured an agreement to let our payables slide for an additional 30 days, in effect generating a short-term loan of $90,000. This cash was crucial in steps like the closing of our Muncie plant. With savings generated from the consolidation it was possible to return our payable schedule to normal within about 6 months.

However you handle it, it is important to realize that vendor relationships are an important part of your business mix. They should be cultivated carefully and used wisely.

In a historical sense, this chapter touches on a significant change in business thinking. In times past, vendors, employees, even customers were viewed cautiously as potential adversaries. We’ve seen literal bloodshed between “labor and management” and a host of lawsuits involving businesses and vendors or customers.

The new thinking strives for partnership relationships involving a high degree of interaction and cooperation for the mutual good of all parties. Change has come slowly, especially in giant corporations. But partnership thinking is a cornerstone for many small businesses.

To Ponder and Discuss

1. Are your vendors presently "part of the problem" or "part of the solution" in the operation of our business?

2. Is your vendor philosophy basically best price or best service? Why?

3. Would your vendors consider you a good partner or a "difficult to deal with" customer?

4. Do you actively communicate with your financial sources? Do you provide even more information than is required?

Chapter 14

Fear Not

It is one of the non-fun realities of E life that fear plays an ongoing role. In book 1 of the Five Set—*Are You Cut Out to Be an Entrepreneur?*—we deal frankly with the fact that fear visits at various points. Sales are down. Costs are up. Cash reserves are down. Will the bank renew our credit line? We will stop this depressing list now, but it could obviously become considerably longer.

A reasonable amount of fear is normal, maybe even healthy. It certainly keeps us motivated and tuned in to the factors that may impact our business. But there are two areas of fear that, unless overcome philosophically and emotionally, will wring much of the joy out of the entrepreneurial experience. We must not fear the loss of key employees or key customers.

Walk with me for a minute on a pretty fine line. Most Es have employees and customers the loss of which would be grim. We have no higher calling than developing policies and programs that maintain the long-term loyalty of key customers and key employees. Some Es even give up portions of ownership or major shares of company profits to secure long-term relationships. That kind of decision may make perfect sense and will hopefully lead to the desired decades-long loyal relationships.

But there is an important *other side of the coin*. It is equally important that the E **have confidence** that major setbacks will be survived. If a key customer is acquired by

a corporate giant and moved out of town; or should a key employee die, become disabled or simply choose to leave the firm, the ship will continue to sail with the captain's hands firmly on the wheel.

I'll address this difficult issue from personal experience. Over the years, I have lost top-ten accounts perhaps 30 times. I have lost my largest account three times. It was definitely not fun. Steak turned to hamburger sometimes, and I learned some creative cash flow techniques. But the ship sailed. Over the years, I have lost key employees perhaps ten times. Wives moved with their husbands. A key manager started a competitive company. Four addictions ended careers. In every case, it was tough. I often had to personally fill in for the departed employee. But the ship sailed.

The most practical application of the **Fear-Not** principle is dealing with problem employees or accounts. If a key employee has problems, what do you do? Performance may be down some. Personal habits may be a clear problem. But the fearful E may take no action, afraid that the loss of that employee, even if somewhat flawed, would sink the ship. If a valued customer becomes overly demanding, clearly abusing your company because of a perception that you need the customer so badly you'll absorb the punishment, the fearful E may take no action, afraid that the loss of that client would sink the ship.

If this kind of fear wins, the E is more pitiful than the most hounded employee in a big company. Our dream of independence is soon in the trash can because—practical matter—we have allowed the employee or the customer to

become a far more tyrannical boss than we would have allowed as big-company employees.

The old Broadway show tune advises "whistle a happy tune and hold your head erect…so no one will suspect you're afraid." Good counsel for us Es. It is important that we be willing to face the fear squarely, and that we have personal confidence that the ship will sail. It is also important that we convey our confidence to employees, other customers, bankers or whomever else is watching.

Active Planning!

Fortunately, the final thought in this chapter need not aim at bolstering your courage in the event you face the firing squad. The E should actively plan for the possibility of key losses. There should be back-up marketing plans and/or contingency overhead trimming plans in the event of a major revenue drop.

Much like the football team's "depth chart," the E should actively cross-train to assure minimum disruption if a key employee is lost. Some of the cross-training may be personal. As mentioned, my own career has included filling in at multiple spots during transitions.

To Ponder and Discuss

1. Do you have key employees, the loss of which would jeopardize your ability to operate?

2. Are there key clients, the loss of which would be harmful to your company's health?

3. What are you doing to develop back-up plans regarding potential loss?

4. Have you worked through the issue of "fear of loss"? If not, what steps can you take to help deal with fear?

Chapter 15

Handling Employee Conflict

This issue has been touched in several chapters, but is so important (and so certain to confront the E) that a mini-chapter seems appropriate.

Sometimes people just plain don't get along. Conflict may result from philosophical or strategic differences. There will be, maybe should be, healthy conflict between the sales team and the production team. The financial team should weigh in with some cost-related ideas that neither sales nor production will like much. That kind of conflict, under control, indicates that strong professionals are doing their jobs. It is common that significant change creates various tension and conflict. The E should be as sensitive as possible in implementing change and somewhat patient while things sort out.

But much organizational conflict is petty and emotional. There are political issues, jealousies, personality clashes and maybe a hundred more reasons that people wind up in conflict. Unless you are ordained Saint Entrepreneur and are bestowed with the gift of miracles, you will have conflict in your organization. The key question is what you do about them.

Let's talk first about what happens if conflict wins. There are companies, large and small, in which the climate of whining, griping, trashing fellow employees, managers and owner wins big. This condition will kill employee

morale, customer loyalty and the entrepreneur's love for the business. It must not happen! But the condition has a creeping quality. It happens one conflict at a time. The busy E may ignore early symptoms because of the press of other activity. But ignoring this subject is extremely dangerous. It is likely far better to view petty conflict, whining, and griping as a cancer to be cut out early.

The first leadership key is to be above the problem, not part of it. We Es are human beings who appreciate the efforts of our good troops and resent the problems caused by our less good troops. If we allow those emotions to become publicly visible and to be interpreted as conflict, griping and whining on our part, we're hard-pressed to deal aggressively with similar behavior from employees.

The second key is to pick battlefields carefully. It is not possible, physically or emotionally, to mediate or squash every employee squabble. You must address those that affect the conduct of business, risk long-term organizational rifts, or appear to be symptomatic of a spreading cancer.

The third step is to understand the conflict. Sometimes there are issues that explain differences and can be relatively easily remedied. Major brewing conflicts (here comes a pun!) have been resolved by providing both decaf and regular. Brief mediation (let's set the thermostat at 72˚) can cause Mr. Hot and Ms. Cold to return to civility. If so, you should attempt to handle things without in-your-face confrontation.

But, if necessary, **act boldly.** Meet with people separately, in pairs, or in groups. Make it 100% clear that

the behavior is unacceptable. Here are examples of the kinds of messages you might want to communicate:

- We absolutely will not allow employee differences to affect the way this company serves its customers.
- As owner of this business, I have some right to enjoy the working conditions in my own company. Right now, you are making my job miserable, and I simply won't put up with it. I can be miserable working for someone else and don't have to worry about making bank payments.
- I absolutely will not tolerate behavior from people I'm paying which is worse than the behavior I would tolerate from my own children.
- I don't care if you like each other. I don't care if you go home and smack walls because you don't like each other. But while you're here, you will behave with professional cordiality so we can get our job done in a reasonably pleasant climate.

You can receive huge help with this issue if you've molded a no-whine corporate culture. It is apparently impossible to eliminate griping altogether, but fellow employees can bring pressure to bear, often through humor, that helps keep the negatives to a minimum.

A final thought, although negative: There are human beings so thoroughly negative that removal may be the only answer. The clear clues are two: At first, they are clearly spreading organizational poison. Later they cause the loss of good employees who simply cannot tolerate them further. You should try logic, reason, even counseling

if the employee's skill contribution is important. You should provide formal warnings. But if necessary, cut out the cancer.

To this point, we have discussed the relatively tame issue of employee conflict acted out verbally. It goes without saying that the E must also be alert to more sinister poison. At one point in my corporate history, there was indication that drugs were being dealt by an employee (including making creative use of our delivery vehicle). Several years ago, it was necessary to address a serious sexual harassment issue. It would be accurate to describe my attitude and action in these matters as ferocious. It was behavior that could not be—and was not—tolerated.

Do not lose on this battlefront!

To Ponder and Discuss

1. What is the difference between positive and negative conflict in an organization?

2. Why do we say the conflict among the sales, production and finance functions can be healthy?

3. Do you think griping and whining are inevitable and cannot be addressed?

4. If you feel action is possible, what are key steps that can improve the climate in your business?

5. Do you have potentially "impossible" employees who are causing problems? What action are you planning?

6. Are there more serious behavior issues that should be addressed?

Chapter 16

Profit & Cash Flow

We've covered a lot of ground. Hopefully excellent execution of the fundamentals we've discussed will result in a profitable enterprise with strong cash flow. But let's spend a few pages on the specific challenges of earning a profit and achieving cash flow. It can be surprisingly difficult as my career has repeatedly illustrated.

The elements of profit are easily identified on a basic profit and loss sheet:

Revenue
[less **Cost of Goods Sold**]
= **Gross Margin**

Gross Margin
[less **Selling and Administrative Costs**]
[less **Overhead**]
= **Profit/[Loss]**

Revenue

Revenue represents the dollars (yen, lira or whatever) that we invoice for the goods/services we sell. In most businesses, revenue must be analyzed in at least two ways: *Unit Sales* and *Selling Price*.

Unit Sales reflect the number of customer transactions we achieve and often the number of individual products that are part of each transaction. Of course, **Selling Price** is the amount we receive for the units sold.

Unit sales are a direct reflection of our impact on the marketplace. Achieving adequate unit sales is closely related to the concept of critical mass and is a vital issue for early-stage entrepreneurs. Selling price is important twice: if selling price is too high, we will have difficulty achieving adequate market impact. But if selling price is too low, we will be unable to achieve profitability.

Many early-stage entrepreneurs tend to under-price. Among the reasons:

- Desire to earn customer acceptance by attractive pricing
- Fear of overpricing—for some Es, the hesitancy to charge a full and fair price is a real problem, probably rooted in insecurity
- Failure to fully understand the many costs of doing business

One-person service companies are particularly prone to under-pricing because of failure to understand costs. A person earning, say, $18 per hour at a job might say, “If I own my own business and can charge $25 per hour, I’ll be in great shape.” Among the fallacies:

- When we have a traditional job, “billable hours” are usually 40 or more each week. In business, the billable hours are usually lower because of down time, sell time and administrative time.
- On the job, the company covered overhead items, from workman’s comp to computer repair. These costs must be borne by the entrepreneur.

- Perhaps most importantly, if your business grows and must add employees, you must have a pricing system in place that will cover the full cost of employees while yielding a profit for you. If your pricing mentality was "enough for me to live on plus a little," the pricing is almost certainly too low to support employees.

Early-stage Es often fail to understand the concept of "transaction cost." In most businesses, there are costs associated with these functions: initial dialog with a client, writing up the order and communicating details of the order, completing paperwork, collecting money and properly accounting for costs and revenues. The size of these costs is business-dependent, but it is extremely common for E-pricing to fail to adequately cover transaction costs. As one example, let's say our consulting business has determined it will charge $100 per hour. A new client contacts us and describes a simple project. "Thirty minutes tops," we estimate, "so our price would be $50." But it will take time to understand the client's needs, to log him into the accounting system, and to finalize all details of the order. Chances are, $50 won't begin to cover all costs of transaction. Among the solutions: a **minimum charge—**"Our rates are $100 per hour with a 2-hour minimum"; or a **project management charge—**"Our rates are $75 plus $100 per hour. The $75 covers overall project management."

Most businesses experience lost revenue from factors such as bad receivables, errors/spoilage, and customer returns. These losses must be realistically

considered when setting pricing. Although it can seem slightly unfair, “good customers” must bear the cost of your various sources of lost revenue.

A pricing problem that relates to “fear of overpricing,” is the tendency to offer discounts. Of course, some discounts represent legitimate sales promotions. But others are offered “just to be nice” or, worse, as a fear-based price reduction. Often discounts start with family and friends, but have a tendency to spread. There are two powerful arguments against systemic discounting: (1) The multiplier effect, through time, can be extremely high. If a company with average transactions of $500 discounts 10% twice weekly, the annual cost is $5200. Over 10 years, that’s $52,000. (2) Discounts are more expensive than they might seem. For example, 10% may sound like a modest discount; but if our business has a gross margin of 40%, the discount represents a full one-fourth of our available gross margin.

Most new businesses should set price levels that consider *future* cost levels. In the early stages, it might be possible for a hard-working E to serve as president, salesperson, accountant and night janitor. But business growth will force these positions to be filled by paid employees. If price expectations have been set too low, it is difficult to raise those expectations as you add necessary overhead.

There is probably no better advice regarding price setting than this: Learn what established, successful companies are charging for similar products and services. Begin your P&L analysis on the basis of those price levels,

and consider reducing those levels only after careful deliberation.

More Units Via Lower Prices? Businesses, large and small, are tempted to increase sales volume by lowering price. There are cases in which this tactic makes sense. In general, it is a very slippery slope:

- If competitors retaliate by matching our reduction, we likely gain no market share and have reduced total revenue.
- If competitors react in "price war" mentality, we may trash price levels in our overall market.
- A price-based strategy creates long-term competitive vulnerability. Someone, whether through stupidity or legitimate cost efficiency, will under-price us.

To the extent possible, it is best to "think value" and earn higher prices in the marketplace rather than "think cheap" and rely on low pricing.

Cost of Goods Sold

"COGS" is our cost of the goods and/or services we sell. In product-based business, COGS is typically material cost and the cost of machines and people involved in making the products. In service companies, COGS is the cost of personnel plus direct support functions. Here are issues related to COGS:

Our COGS must be competitive. If our wage costs are too high or our production is inefficient, we have a potentially fatal cost disadvantage. We must either absorb

the cost, reducing our profit, or we must pass the cost along to customers. If our excess cost brings no extra value to the customer, we will not be able to justify higher prices.

COGS should be analyzed constantly and reduced when possible. In many businesses, the cost of goods sold is the highest single cost component. It provides most opportunity for improvement. It also provides the most opportunity to suck profitability if we lose control. Every effort should be made to purchase wisely and to use labor and material efficiently.

Watch the trends. If our wages or other costs are rising at 5% per year and our competitor's are rising at 3%, the impact over a year or two is probably acceptable. Over ten years, it would be fatal.

Watch benefits. Benefit costs, particularly health, can be explosive in terms of rapid upward trend. It is important to have clearly defined programs and a clear understanding of "who pays for what" as costs escalate.

Strive constantly for efficient use of people-power. In many businesses, labor costs are a key component of COGS. Successful companies learn to achieve maximum efficiency from labor dollars.

Selling Costs

Most companies define selling costs as advertising, promotion and cost of employees directly involved in the marketing process. Some factors:

Of all items on the P&L, **selling costs offer the greatest opportunity to beat competitors or risk of being clobbered.** If we are advertising effectively, sales gains can be excellent. If our sales force is efficient, we can have

excellent revenue per dollar expended on selling. But the sword has two edges. Chapter 2 covered various aspects of sales and marketing. It is crucial to become skilled.

Give careful thought to the role of commissions. Sales compensation systems range from 100% commission to straight-salary. Many are a combination. The effectiveness of a sales force often depends on the right mix of salary and incentive. The issue is extremely industry-dependent, so we can't generalize. But getting this one right is a key success ingredient.

Keep marketing dollars focused. There are a surprising number of "soft" ways to spend marketing dollars. Some support good causes. Some inflate E-ego. Some are entrenched programs we do "because we've been doing it for years." Part of the difference between winners and losers is the efficiency of marketing dollars. Constant analysis makes sense.

Administrative Costs

Administrative costs are the costs of our infrastructure. Too little can make us too loose. Too much can create excessive burden. Some factors:

Some businesses are penny wise and pound foolish. It is remarkably common for businesses to "cut overhead costs" by getting rid of people who handled vital elements of the business, such as quality control, financial audits and purchasing. To save a $35,000 salary in an area of the business involving hundreds of thousands of dollars can be very short sighted.

But cost-creep tends to creep in. Especially through time, it is easy to add more phone lines, more

faxes, more computer stations, more vehicles, more mini-benefits, more this and more that. Each decision seems sound. Many seem small. But the cumulative effect can be major overhead increase.

“Owner compensation” can creep up. Owner compensation is a loose term for multiple E-benefits. Examples can be automobiles, travel & entertainment, event tickets, gifts and even salary payments to marginally productive family members. I am obviously not opposed to E-benefits. There should be some to help make it all worthwhile. But each should be carefully considered, and the cumulative effect through time should be carefully monitored.

Carefully gauge the cost/benefit of professional consultants. It is possible to build in unnecessary costs such as legal and accounting fees not really necessary in the conduct of the business.

Gain efficiency through modernization. Current business tools such as computers, software and the Internet offer immense opportunity for more efficient administration. These opportunities should be studied and exploited.

General (Overhead):

General costs include rent, lights, basic insurance and a variety of costs related to “keeping the doors open.” Some considerations:

Overhead tends to be easy to add and hard to eliminate. For example, a new facility will likely involve a long-term lease. Especially if times are good, there is a

tendency to add corporate niceties that can seem very expensive when times aren't so good.

New Es have a **strong tendency to underestimate overhead.** Many early-stage businesses can be run inexpensively with the E handling many duties personally. With growth, there are a host of necessary additions to overhead.

Have a fallback plan. It is very helpful to consider, in advance, the plan for cutting overhead costs in a time of business downturn.

Cash Flow

To a surprising extent, achieving strong cash flow is harder than achieving solid profitability. Growing businesses tend to suck cash: more inventory, more receivables, more investment in training, facilities, etc. As a business becomes profitable, taxes do some significant sucking. It is very important that the E have good cash flow projections—almost certainly requiring some kind of spreadsheet analysis. Here are keys to improving cash flow:

Collect money due aggressively. If your business sells "on credit," it is important to have clear payment guidelines and to enforce those guidelines. It is remarkably common for Es to be wishy-washy about collecting money from customers. If this is a psychological issue, the best advice is, "Get over it." It is vital to be tough but fair in collecting money and in most matters administrative.

Keep inventory lean and efficient. Growing companies tend to add inventory breadth and depth. Inventory should be carefully monitored and kept to a minimum.

Use available sources of cash. Vendors who extend credit terms can help offset the cash requirement of receivables. The concept of “matching receivables and payables” is a common cash-flow device.

The role of a line of credit. Many businesses have fluctuating income and expense patterns. The correct role of an “operating line of credit” is to provide funds during lean times with the idea of paying back those funds when cash flow is stronger. A credit line offers the same tender trap found in personal credit cards. If the credit line is used for equipment purchases or, worse, to buoy up a business that is losing money, the credit line will soon be “maxed” and there may be no available means to repay.

Used correctly, a credit line is a great help in cash flow management and a great reducer of E-stress.

Set aside money for taxes. Businesses do not have “withholding” in the same sense that individuals do. Therefore it is easy to ignore a mounting tax liability until the accountant announces the bad news at year-end. It is wise to estimate taxes and set aside funds to cover those taxes.

When times are lean. If your business falls on truly hard times (the subject of book 4 of the Five Set), it is sometimes necessary to creatively generate cash flow. Here are possibilities:

- Reluctant use of the operating credit line
- New borrowing based on supporting a clearly defined turnaround plan
- Sale of an interest in the business
- Negotiation with landlord to reduce or skip some facility payments with the idea of later repay

- Negotiation with vendors for extended terms
- Negotiation with customers for prepayment of amounts that would be purchased and paid for later
- Wage concessions
- Overhead reduction

In all likelihood, a combination of these and perhaps other steps will be employed.

A tough issue in turnaround is whether to solve the problems on the revenue side or the cost side. If possible, revenue-based solutions are preferable, partly because we can avoid painful steps like major overhead reduction. However, revenue-based turnaround carries the high risk that the new revenue-generating programs will not work as planned. If this happens, we've likely added new costs and have amplified the crisis. Cost-based turnaround is more certain. If we cut certain programs, the cost savings are real and can be applied to the turnaround process.

To Ponder and Discuss

1. Why is our "unit sales total" so important?

2. If unit sales numbers are high, are we necessarily doing a good job on the revenue side? Why?

3. Are there reasons you might be tempted to underprice? Do they make good business sense? Now? Long term?

4. Why is cost of goods sold such an important cost factor?

5. Give example of good ways to reduce COGS. Give examples of stupid ways to reduce COGS.

6. Why is efficient selling cost so important? Do you have a personal strong emphasis on this subject?

7. Administrative functions help control the business. Give examples of good reductions in administrative costs. Give examples of stupid reductions.

8. Overhead is easy to get and hard to get rid of. Why is this true? What are the best ways to control overhead?

9. How can rapid growth cause a business to be very short on cash? What is the role of taxes?

10. What are ways to improve cash flow within your company during good times?

11. What would be your cash-flow improvement plan during a crisis?

Chapter 17

Use of Financial Resources

Our chapter on P&L deals with tactics of managing profits and cash flow. Here we deal with the strategic role of finances. On a couple occasions, we have likened the E's job to that of a battlefield commander. The analogy holds for use of financial resources. You must carefully assess the battle and decide where to apply resources. Should you *attack* (spending on R&D, marketing, etc.) or should you *defend* (strengthening your infrastructure)? Should you hold back reserves to allow a counterattack in case things don't go as well as planned? How much should you allocate to troop morale? How much should you allocate to your own morale?

For most Es, even fairly well established Es, financial resources are limited, and potential uses of those resources are vast. The only relevant advice is, "Use good judgment, and exercise appropriate restraint." Some issues:

Be careful to allocate enough resources to marketing. It is a tragedy to develop a great concept and have no money left to market it.

Hold something in reserve, such as a back-up line of credit or contingency funds from your venture capitalists. A large number of businesses develop more slowly than anticipated but may still be very sound.

Be patient in withdrawing money. Because Es almost always sacrifice financially in addition to investing immense amounts of time and energy, it is tempting to grab

some goodies as soon as they seem to be available. As we've discussed, growing businesses have an ongoing need for cash, so premature goodie-grabbing can slow growth.

Consciously invest in relationships, particularly employee and customer. Employee investments can be in working conditions, benefits and bonuses. Customer investments can include side fringes such as sports event tickets. In my experience, though, investment in the support system that will generate outstanding customer service has more lasting benefit.

Invest in the future. At almost any time, there should be some variation of R&D investment: ideas, products, programs, technologies, etc. that will impact how your business operates in the future. Today's Internet is a fabulous example. As these words are being written, much is still unclear about the long-term role of the Internet, but it is certainly clear that the role will be important. To enter the arena now, even if on a minor basis with no goal beyond starting to climb the learning curve, is almost certainly a sound R&D investment.

Be the leader. You will receive immense pressure on the subject of funds use: salespeople, vendors, employees, fellow entrepreneurs, outside media, family, even friends. Listen well. Consider carefully. But remember there is no more crucial E decision than allocation of financial resources, and it is your job.

To Ponder and Discuss

1. What will be the "next" thing you will do with some available capital? What will be the two priorities after that?

2. What basis did you use to decide #1: short-term need of the business, long-term need, or personal need?

3. What kind of investment in the future are you making now or planning to make when possible?

4. How do you address conflicting demands for funds? Is there a formal process that weighs alternatives, or do you make each decision as it comes?

Chapter 18

Negotiating Skill

The entrepreneurial experience sometimes feels like non-stop negotiation. Several of our chapters have dealt with negotiating indirectly. Here we'll talk about some of the ingredients of effective negotiation. This topic is deep; so you may want to study it further through available books, seminars and courses.

There are at least eight key variables that enter into the negotiating process:

- Personal strengths and weaknesses
- The forum in which negotiations takes place
- Cultural or organizational norms
- Duration of the relationship between the parties
- Relative strength of the parties
- Relative "hunger" of the parties
- Clarity of objectives and limitations
- Knowledge of the other party's objectives and limitations

Personal Strengths and Weaknesses

Some people are naturally dominant; some tend to be submissive. Some are good poker players; others help the good poker players rake in big pots. Some people have great insight into the thoughts and emotions of others; others are virtually clueless. At one basic level, effective negotiation involves very intangible qualities like presence,

savvy, instinct, and ability to read the other party. These qualities can be improved through study and practice; but if you realize a weakness in any of these areas, it may be necessary to structure negotiations to minimize the impact of your weaknesses. As one example, the following section discusses the forum. If face-to-face negotiation is a weakness, you may want to negotiate in writing or through an intermediary.

The Negotiating Forum

There are a multitude of forums, and he who controls the forum has a considerable advantage. A basic example is the age-old process of purchasing an automobile— an almost ritual dance of offers, counter-offers and trips to the back-office "to see if the manager can accept a crazy deal like that." In past years, the auto industry controlled the forum. Today, upstart negotiating systems, often involving the Internet, are creating a huge upheaval in the industry because the customer more nearly controls the forum.

Forum options include:

- One-on-one interaction: often the case in employee-employer and entrepreneur-client negotiations, with subsets including face-to-face, telephone, fax, email, snail mail and others.
- Larger group negotiations: often the case in labor-management, governmental, or high-level business-client negotiation, with subsets now including teleconferencing as well as face-to-face meetings.
- Mediated negotiation, perhaps involving lawyers, brokers or professional mediators.

Savvy negotiators carefully consider the forum, including issues such as structure of opening comments, seating arrangements, signals to team participants in group negotiations, and a host of other tactical considerations. Before smoking lost its business cachet, there were stories as bizarre as negotiating teams executing a group cigar light-up to literally blow smoke on the issues being negotiated. Even if there is no smoke in your eyes, it is vital to be aware of, and savvy about, issues of the forum in which you negotiate. In several respects, controlling the forum is similar to having home field advantage in sports.

Cultural or Organizational Norms

This issue is another “be aware and know the rules” topic. There are negotiating styles that relate to ethnic or geographic traditions. As an example, I spent part of my early career on the East Coast where negotiating is much more confrontational (putting it mildly) than is typical in the Midwest. Two New Yorkers might well say things to each other (then go to lunch together) that would lead two Hoosiers into a literal fistfight. When a New Yorker negotiates with a Hoosier, it is important that both understand the other’s style.

Other tradition-based norms may be the result of history. For several decades, the United Auto Workers and the auto industry have negotiated via the same process. In smaller companies, there may be one-on-one wage negotiation linked to an annual job evaluation.

The key is awareness and using that awareness to best advantage.

Duration of the Relationship

The savvy negotiator definitely takes into account the issue of whether relationships are short or long term. As a simple example, if you are traveling and negotiating the purchase of a souvenir, you are in the classic short-term relationship. You can be aggressive, as obnoxious as your style allows, and outrageous in your demands because you will have no ongoing relationship. It is a dubious tactic to pummel, browbeat and verbally abuse those with whom you will be negotiating "same time next year" or next month or whatever. There are classic examples of winning the battle but losing the war when negotiators view the "other side" as adversaries to be defeated. In one way or another, the adversary is likely to rise up and fight back.

The key concept for ongoing relationship negotiations seems to be "win-win." It is important that both parties feel they have been heard and that a good faith attempt has been made to find a fair middle ground in the negotiating process.

Relative Strength of the Parties

The issues of relative strength and relative "hunger" (next topic) are related. Strength is typically an issue of organizational and/or financial power. For example, a small company who is vendor for a Fortune 500 company tends to negotiate from weakness. However, the strength-weakness analysis is mightily affected by supply and demand. If our small company is the only source of valuable technology, we are much stronger in our negotiating position, even with a Fortune 500 company. If

an individual has a vital skill, negotiating strength increases. If an individual is part of a "short in supply" component of the workforce, negotiating strength increases. Savvy negotiating includes understanding and being realistic about relative strength. A classic example has been played out in small towns across America. A small company is purchased by a larger company. The new owner says "I need wage concessions or I'll move production to ________." The workers cross their arms and refuse to give concessions. In a year or so, the production has moved to ________ and the stubborn workers are out of work. Note that realism is a different issue from right, wrong or fair. It is simply awareness of how much you weigh and how much the gorilla weighs.

Relative Hunger of the Parties

Viewing negotiation as a game; it is important that the other party is hungrier than you are. This part of the process often includes the poker equivalent of the bluff: the attempt to persuade the other side that you can "take it or leave it." Let's illustrate by a couple of personal examples. Shortly after my business collapsed in the early 1970s, I was selling off remaining assets, partly because my wife was hounding me about grocery money. I had run an ad for five office chairs that had originally cost $75 each. They were about a year old, and my asking price was $40 each. A guy came in and offered me $25 each, using the blatant but sometimes effective tactic of showing me the cash. My negotiating position was so weak—as a function of relative hunger—that I accepted his offer. As I drove home that night, I vowed to never again be in such a weak negotiating

position. Despite my vow, a few years later, I went auto shopping with my two daughters, seeking the car they would share through high school and early college. We found "the cutest little sport coupe you ever saw" which they test-drove, gushing the whole time. The salesman was watching. We proceeded to the salesman's cubicle where Papa said, "OK, John, now let's talk about your best price on that car." John, a savvy negotiator who had assessed that my life-relationship with two daughters was hanging in the balance, just smiled and said, "You already have it, Mr. Corbin."

By contrast, when I was negotiating for the purchase of Townsends Printing in 1988, the business had failed and had been repo'd by the bank with whom I was directly negotiating. I was aware that a "pre-repo" asking price for the business had been $600,000. The asking price was now $170,000, about the amount Townsend owed the bank and the IRS. I said, "I'll form a corporation that will borrow $170,000 from you without personal guarantee. I'll then use the $170,000 to buy the business from you and try to turn it around." The bank said, "No way. How do you expect us to loan $170,000, without co-sign, to a guy from another city whom we barely know?" I said, "I'm not the one who caused this mess, and I'm sure not going to risk my existing business on a gamble in Muncie, Indiana." They flatly refused my offer. The next day, the bank said, "We'll loan you half the $170,000 with your personal co-sign, half without." I said, "No deal, I will not co-sign." The next day, they made the loan. Clearly the issue was relative hunger. I didn't need to do the deal as my plate was plenty full elsewhere. They faced the choice of doing the

deal with me or selling the equipment at auction (probably $75,000 net proceeds). It is far more fun to negotiate when the other party is hungrier than you.

Clarity of Objectives and Limitations

Perhaps the most important aspect of negotiating is clear objectives and clear limits. Often the issue of objectives is related to strategic matters. For example, a company that has great fluctuation in demand, and therefore great fluctuation in production schedules, may insist on mandatory overtime. The idea of mandatory overtime is not popular; it even sounds objectionable in a free country. But it can be so important to a company that survival depends on it. Therefore, negotiators have a clear objective and know that they will not bend on that issue. Examples of smaller issues for entrepreneurs might be dress code for customer service representatives or the clear right to dismiss an employee based on certain infractions. These can be “lines in the sand” beyond which the E will not be pushed.

Limitations are simply the amounts we are willing to invest to “do the deal.” If your limits are clear going in, the negotiating process is much simpler. Depending on your style, you may start at “best offer,” or you may start at something less than best offer and then negotiate up to best offer if necessary. But at *best offer* you stand, meaning that you are willing to walk away from the process if your clear limit is not adequate to consummate the deal.

A few years after our father-daughter auto negotiating debacle, my daughter Lisa redeemed herself. Her car had been totaled in an accident. Settlement from

the party at fault had been $2600. She had no other money. I was college-cash-poor, so couldn't help. She had a clear negotiating limit. She and I visited a dealership where she found a car she liked with a sticker price of about $3500. She said, "Dad, I'm gonna go for that one." I said, "No way, Lisa, they're not going to discount that car $900." She said, they'll have to discount it more than that, because I've got to pay sales tax." I shook my head. She made her offer to the salesman: "I want to write a final check of $2600 for that car." He laughed and came back at something like $3200. She said, "OK, dad, let's go," and started to leave. He said, "Now wait, let's see what I can do." Making a *very* long story short, Lisa got her car for $2600," apparently a combination of dealer hunger and the wonderful role of a clear limit.

Understanding the Other Party's Goals and Limitations

It is surprisingly common to "leave a great deal of money on the table" by failing to understand the other party's position, goals and likely limits. If possible, we should gather facts. Whether we have facts or not, we should analyze the likely negotiating strategy of the other party. In wage negotiation, it is mightily helpful to know the approximate goal of the other party. In strategic partnership negotiation, it is important to know why the party is interested and how valuable our contribution is to bigger picture plans. In very small negotiation, the principle applies as well. Let's say we live in St. Louis and are selling an antique. We get a call from a guy in Louisville, Kentucky, several hundred miles away. The person is very interested in seeing our product. We can safely guess that

this buyer is highly motivated. We would likely "leave money on the table" (vs. in our pocket) if we allow this buyer to negotiate a substantial price reduction.

Note that, in several respects, effective negotiation is a planning process. We must set objectives, gather facts, assess the other side, control the process as much as possible, set limits, and execute effectively. It should not be done carelessly or haphazardly. Done effectively, negotiating will contribute mightily to the bottom line, partly because of multiplication. If, for the next ten years, we conduct 50 negotiations per year on a very effective basis, we have improved profitability 500 times. If each effort was worth only $100, that's $50,000 we might have otherwise missed.

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To Ponder and Discuss

1. Are you comfortable or uncomfortable in the negotiating process?

2. Are you willing to improve by study and practice?

3. Do the ideas of controlling the process and setting clear objectives and limits make sense?

Chapter 19

Keep Your Strategic Eyes Wide Open

For most businesses, things will be different in a couple years, and vastly different in 5 to 10 years. Sometimes change is very positive. If you happened to be in the western-wear business a few years ago when the whole world began line dancing, that was a good change, and you probably experienced explosive sales growth. Often, though, change isn't so good. If you opened your western-wear store at the peak of the line-dancing craze, you're probably watching key trends head south today.

Change can be as high-level as shifting demographics and changing fashion tastes. It can be as subtle as a shift toward or away from conservative family values. It can be as basic as having a new interstate highway divert half your customer base or having a plant close that employed 20% of the people in your town. It can be driven by emerging technology as the Internet powerfully demonstrates. It can be changes in the competitive marketplace. The arrival of Wal-Mart in a small town is a brutal example. The consolidation of competitors into nationally owned chains is another.

The absolute key for every E is to keep the strategic eyes wide open. If changes will devastate our traditional markets, we must know it as quickly as possible, and respond as quickly as possible. If our customers will

demand new technology or new ways of doing business, we must be aware and respond. If our competitors are moving forward at a rate faster than we anticipated, we must step up our pace. If we literally can't compete with new giant competitors, we must redefine our business or join the consolidation movement.

It is surprising but sadly true that many Es sleep through the warning periods and respond too late to change. The three keys seem to be these:

Be a student of your industry—Emerging technology, competitive trends, market statistics, etc.

Be a student of your own marketplace. What is going on that may affect you?

Have an excellent management information system. This system should provide the early warning you need in order to identify and react to change.

Part of the E dilemma is the tyranny of the urgent. Even if it's only one weekend per year, force yourself to spend time in longer-range analysis and thinking.

The good news, of course, is that intelligent trend analysis and solid long-term thinking can position you for explosive growth and great success. Now and then an E "lucks into" the trend that creates wealth. More likely it was a good idea based on good analysis of market trends and other strategic issues.

To Ponder and Discuss

1. Do you have a formal long-range planning process?

2. What are the kinds of trends most likely to affect your industry?

3. What trends are most likely to affect your own marketplace and your internal operation?

4. Are there any potential disasters looming?

5. Are there trends that may indicate great opportunity for which you should prepare?

6. Have you developed a Management Information System strong enough to measure progress and track potential problems? If not, what is your plan for development?

Chapter 20

The Lure of Diversification

For the E, diversification involves launching a new venture while continuing to operate the previous venture(s). If you'll flip back to this book's introduction, you'll find a resume filled with attempted diversification. Most of it was unsuccessful. We did hit a couple doubles and maybe one home run. However, by 1996, the entire business was close to failure primarily because of our diversification activity. It is very important to understand the impact of diversification, to proceed only for the right reason and at the right time, and to resist the temptation when the reasons or timing are wrong.

The first unavoidable impact of diversification is dilution of the resources available for the original business. Your time is split. Your financial resources are at least partly diverted. Other important resources such as staff time and talent may also be diverted. We've already talked about the struggle to reach critical mass for a new enterprise. It requires hard work and concentrated effort. If the E is trying to attain critical mass for two or three ventures at the same time, the odds of success drop significantly.

My foray into *Carmel Happenings* in the early 1980s, was a classic example. We had achieved reasonable success with Unified Neighbors and the fledgling printing business, but had not piled up a cash horde adequate to support a new venture. Our staff was already stretched

trying to operate the core business. But we launched *Carmel Happenings* anyway. Why? Two reasons, one good and one horrible. Our market analysis was good. We were in an upscale suburban community just emerging from "Indianapolis bedroom" to an identity of its own. The community was filled with interesting people and stories. A *People Magazine*–type venture seemed perfect. And the early returns from the marketplace bore out the basic soundness of our marketing thinking. But the horrible reason was a simple case of restless entrepreneurial spirit. I was personally enamored of starting businesses, enjoying that process much more than I enjoyed running them. We had a name I liked for a business idea I liked. So we walked out on the E diving board and dove in.

My love of the project and my restless spirit caused me to ignore the primary strategic issue. We simply did not have the resources to do the business right. It was quickly evident that something was going to give. For us to give *Carmel Happenings* enough attention to survive, either the core Unified Neighbors business or our fledgling printing operation would suffer severely. After three issues, we closed *Carmel Happenings* and probably saved the overall enterprise. Additional review of my resume will reveal that the restless spirit did not depart; and by the mid-1990s, I had managed to create an empire sprawled across four industries (publishing, printing, mailing and fulfillment) and four office locations, one 50+ miles from home base. Again, diversification nearly sank the ship, and only an intense "define and concentrate on the core competencies" saved me from the tubes. So, with some conviction, I can say that restlessness is a very poor reason to diversify.

Hillary climbed Mt. Everest "because it was there." We Es sometimes launch new things "because that's what Es do." Poor reason!

On the other hand, diversification can make great strategic sense. A contemporary of mine had built a successful business, originally called Innovative Closets, providing high-end custom closet designs. His shelving and design concepts literally create order out of chaos, adding a huge amount of available space within existing closets. As he watched the trend toward home offices, he realized that his core competencies were perfect for building the shelving, computer stands, etc. involved in an efficient home workspace. He changed the company name to Innovative Corporation and very successfully broadened his focus. One of the keys to his successful diversification was the technical proximity of the new product line to the old one. His existing team already had the majority of necessary expertise.

At about the same time, an acquaintance was running a marginally profitable real estate company. He seized an opportunity to purchase a marginal dry cleaning business. There were no synergies, and the dry cleaning business folded after a couple years.

My original diversification into printing was reasonable. We were in the publishing business. We decided to economize by printing our own publication. The equipment was underutilized because the publication was monthly. We had a subscriber base that might provide the initial customer base for a printing business. We even had monthly communication with those prospects via a magazine, so marketing was essentially free. So with little

more effort than telling existing clients about our new capability, we launched the printing enterprise.

The move into mailing was somewhat similar. Having learned to manage mailing lists and handle large mailings for ourselves, we offered the service to the marketplace. However, mailing put us in our second capital intensive business, so the battle for resources began. When we entered fulfillment in the 1990s, we entered our third capital intensive business. Fulfillment requires a large amount of warehouse space, shelving, racks, computer support, etc. The drains on resources were just too much and, again, something had to give.

The opening of Beckett-Highland Publishing in 1993 raised another diversification issue. Investment requirements were acceptable, but the skill requirements were vastly different from printing or mailing. To play the game, we needed skilled staff and a host of related corporate competencies that we simply did not have. Although we experienced some early success, it became clear that long-term progress would require major investment, much of it highly speculative. We elected to return to our core competencies so closed both the publishing and fulfillment businesses.

While I'm in confessional mode, let's use the acquisition of Townsend's Printing to illustrate another potential E flaw. Townsend's had failed (for very good reason, as it turned out). When I got there to survey the scene, the doors were locked and the bank's name was on the window. There were a few employees hanging around, and some customer base seemed salvageable. As discussed in our Negotiating chapter, I generated a financing plan so

“clever” that I dazzled even myself, forming a new corporation that borrowed, without co-sign, the $170,000 necessary to purchase the business. I did have to come up with $25,000 for working capital, but it seemed like a great deal. In hindsight, my ego was working overtime. I was already busy at home. I did not have a real plan for turnaround at Townsend’s. The problems that plagued it before continued to plague it after my arrival. We did keep it afloat for 8 years, infused some important expertise in the core business, managed to pay off all loans, and successfully merged it into the core business in 1997, but it was a long struggle started by excessive ego.

It is possible that diversification is demanded by strategic considerations. We talked about the possibility that Wal-Mart comes to town. If you are a traditional downtown retailer representative of the thousands of retailers Wal-Mart has snuffed over the years, you have a very clear, very urgent strategic mandate: to find a place to stand where you can offer product and value that allow you to survive and thrive. It might be a whole new endeavor. It might be a transformation into a particularly strong niche of your existing business where you can specialize. My grandfather’s small-town grocery store was threatened with extinction in the 1940s when Kroger and A&P came to town. He changed his focus to seed and other garden items and farm supplies, and managed to keep the business afloat. Some independents survived by banding together into buying groups. Most failed.

In our previous chapter, we talked about keeping the strategic eyes wide open. If the trends make clear that change is required, diversification is one possibility. But

diversification as a source of entrepreneurial adrenaline rush is probably a bad idea.

Entrepreneurial R&D

Let's return again to the concept of investment in the future—entrepreneurial R&D. We often think of research and development as a big-company concept in fields such as chemistry and pharmaceuticals. Actually, it is a relevant concept for every business and closely relates to the issue of diversification. To survive long term, businesses likely need to make timely shifts of focus, perhaps adding new products or services, or adding new marketing methods. The emerging role of the Internet is a 100% relevant example for thousands of businesses. The R&D concept simply says, "I'll devote a limited percentage of time and money to exploring new possibilities. I will view the cost much like a drilling company views exploratory drilling. I'll strike oil sometimes. I'll come up empty sometimes. But I'll continuously explore just outside the current box. These investments can usually be curtailed if short-term financial pressure makes them excessively costly. And they may provide the ideas necessary for next-step growth or for long-term survival.

To Ponder and Discuss

1. Have you actively launched diversifications from your original business? How did it work? Why?

2. Are you considering diversification at this time? Why?

3. What are the risks of diversification to the core business?

4. Are those core business risks acceptable?

5. Do you have active R&D underway as you look toward the future? If not, what plans would make sense?

Chapter 21

Become a Good Leader

Throughout this book, there have been topics that involve leadership style. To successfully define and shape a positive corporate culture, your leadership style must be effective. To develop a strong infrastructure and an effective set of policies and procedures, you must be intelligent in the definition and effective in the implementation. Good vendor relationships involve leadership. Clearly, good banking and financial relationships require leadership. We'll close this book with issues related to individual leadership style (covered in detail in book 5 of the Five Set—*Entrepreneurial Savvy*).

Clearly there is not a "best way" to lead. There are fabulous entrepreneurial success stories in which the E is near angelic, a kind and sweet soul who treats people with genuine gentleness. There are success stories in which the E is a thundering tyrant who seems deserving of an overthrow by employee coup, but he/she just keeps thundering. So styles vary widely. Based on my nearly 30 years of observation, here are the three keys to effective leadership style:

1. You must be yourself; but you must be willing to adjust your behavior based on objective analysis of your environment.
2. You must be consistent and trustworthy.

3. You must articulate and demand key performance expectations.

Be Yourself…Modified by Reality

The need to be yourself is best understood by observing people who aren't. Let's say a guy realizes his management style isn't tough enough. So he picks up a couple books about General George Patton, rents the George C. Scott video and shows up at the office Monday morning swaggering and bellowing. It just won't work. It won't ring true, and it won't be respected by employees or anyone else.

Just as feeble is an attempt by a blustery E to "go gentle." While there are real conversion experiences in life, they must be real. A weekend of being thrashed by your spouse because "you're too tough on people" that results in a Monday morning of sweetness and light will also not ring true.

There is a very practical reason to be yourself. If you're not being yourself, you are acting a part. Acting is hard work. It is also likely to unravel in times of crisis. So, we can reach the conclusion fairly logically that being yourself is the right basic style. The tricky part is adjusting your attitude and behavior to meet reality.

Let's continue to illustrate by slight exaggeration. Let's say your leadership style was shaped by a parent who reviewed your grade card and preached hell, fire and brimstone about anything below a B+. If you survived all that and view your life as reasonably successful, you may have a deep-seated belief that the way to secure positive results is to react strongly against sub-par performance.

Now you're an E; let's say you're running a small newspaper. In a period of five months, five reporters bring you weak stories that you react to something like your parents would have. All five burst into tears and quit their job. This would be a pretty strong clue that some behavior modification is called for. Note that we're not saying you must become a mamby-pamby who accepts pitiful work. You can remain a leader who expects strong performance, but you need a **style adjustment** that will allow you to work effectively with your people.

Let's say you're an army brat whose perception of leadership was shaped by observing military-types. Now you're an E oriented to barking orders at people who are supposed to salute smartly and obey your command. Unfortunately your business is a book and music store and your employees are primarily college age, relatively long-haired, laid-back types. Guess what? Your style will need some modification. You should not and probably cannot became a non-authoritarian. You'll probably need to set pretty clear rules, and you'll be compelled to keep the barracks ship-shape, but you'll need to find workable ways to interact with the employee group.

For Es over on the *high-intensity boss* end of the teeter-totter, this concept may require some suspension of ego. If you believe, that "By Gosh, I started this business, I risked the money, I've given these people jobs, and they'll do what I say or to heck with 'em," you'll likely have some tough sledding until some of that ego is modified.

A surprising number of Es are over on the other end of the teeter-totter: relatively gentle spirits who have a tendency to be non-confrontational. If you're in that group,

and if observed reality says, “My people [or customers] are taking advantage of me,” you must modify behavior to be tough enough to clearly run your own shop. This step can be very difficult, but it must be done. Some Es attack this problem’s symptom by hiring a hatchet-person to implement tough policies and procedures. This can help, but eventually it is crucial that the E be willing to draw a line in the sand and say, believably, “Beyond this point I will not be pushed.”

Be Trustworthy

Trustworthy has two meanings in this chapter. The first relates to leadership style. Whatever your style becomes, it must be consistent. People must be able to depend on that consistency, allowing them to adapt as necessary to work within your style. A professor told our class years ago, “You can be a very effective leader and be an absolute AH, but to do it, you’ve got to be an AH *every day*.” An almost sure path to morale problems is management by mood-swing. Those of us who experience a bit of moodiness are wise to select our battlefields carefully during down cycles. We might also be wise to warn the crew at 8:30 A.M. “The Corbin mood barometer is at 22 and falling, so look out today.”

The second meaning of trustworthy is pretty much its traditional meaning. I know there are Es who build profitable businesses on a platform that includes lying, cheating and stealing, but I would sure vote against it as a leadership style. It clearly erodes, if not crushes, employee confidence. It can poison customer relationships and other business relationships. Perhaps worst of all, dishonesty

begets dishonesty. An E who routinely lies or is skimming or otherwise cheating financially is hard-pressed to expect high integrity behavior from employees.

Set Expectations and Hang Tough

We talked about learning to draw lines in the sand. To lead successfully, it is necessary to define critical expectations and demand that they be met. This can be accomplished effectively with loud voice or soft voice, but it must be done with 100% conviction. For example, if you have worked hard on your quality control system and discover that an employee is willfully ignoring that system, you must come down very hard. One of my personal lines in the sand involves my company's good name. If anyone falsely harms the good name of my company, they experience true fury. We've talked previously about the need to set and meet reasonable customer service levels and to work as cordial professionals with other employees. If you've set these expectations clearly and they are not being met, you must come down hard.

Some Es are not comfortable with the "come down hard" idea because they don't want to be viewed as demanding tyrants. There is an important distinction, often missed. Let's say an E loves the color blue—loves it so much that blue has become the informal uniform of all customer service representatives. So one day (when maybe the E's mood barometer is low), a CSR shows up in a red outfit. Our E "comes down hard"…whatever that means. Let's say our E loves softball and the company fields a strong team every year. A new employee, although a talented softball player, refuses to play. The E "comes

down hard." These are cases in which the E legitimately risks being declared an unreasonable tyrant. The distinction, of course, isn't that the E feels strongly. The distinction is the relevance of the issue to company success.

Our job is to:

- Carefully define the components of success for our business
- Intelligently develop products, services, policies and procedures which assure excellent execution in each of those components of success
- Relentlessly execute each key success factor

Finally Praise the Positive Contributors!

Many Es, this one often included, do not take the time to truly thank those who make it all work. Find ways, formal and informal, by cash and spoken word, to say thanks. There is probably no single step more helpful in effective leadership and morale building.

To Ponder and Discuss

1. How would you describe your own leadership style?

2. Does it seem to be effective? If not, why not?

3. Is your style consistent? Can your people count on your behavior being predictable through time?

4. Do you operate with a philosophy of high integrity? If not, are there problems in the business that may related to a questionable leadership example?

5. Are you effective in defining important issues and insisting they be implemented by your organization?

PLEASE LET US HEAR FROM YOU!

We've covered a lot of ground in this book… some new, some refresher, some old-hat. Hopefully, overall, this material will help you lead you company with more confidence and savvy. Please contact us at

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with thoughts, comments and experiences. Very best wishes for your long-term success.